

# GENERAL OVERSIGHT OF THE U.S. POSTAL SERVICE

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## HEARING BEFORE THE SUBCOMMITTEE ON THE POSTAL SERVICE OF THE COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES ONE HUNDRED FIFTH CONGRESS FIRST SESSION

APRIL 24, 1997

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## GENERAL OVERSIGHT OF THE U.S. POSTAL SERVICE

THURSDAY, APRIL 24, 1997

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON THE POSTAL SERVICE,  
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 1:05 p.m., in room 2247, Rayburn House Office Building, Hon. John M. McHugh (chairman of the subcommittee) presiding.

Present: Representatives McHugh, Gilman, LaTourette, Fattah, Owens and Davis.

Staff present: Dan Blair, staff director; Heea Vazirani-Fales, Robert Taub, Steve Williams, and Jane Hatcherson, professional staff members; Jennifer Tracey, clerk; and Cedric Hendricks, minority professional staff member.

Mr. MCHUGH. We understand that Mr. Fattah is on his way, and in order to expedite it at least a little, let me formally begin today's hearing, by offering a brief opening statement.

Let me begin, as I always try to do, on behalf of the entire subcommittee, welcoming everyone here this afternoon as we continue our general oversight hearing agenda.

Today's session is really a holdover, a rescheduling of an earlier hearing that was postponed because of a personal situation with the Postmaster General. We are delighted that he is here with us today in person and looking robust and well.

Our first panel, however, is made up of two individuals, which will include Mr. Michael Motley, no stranger to this subcommittee, who is Associate Director of the Government Business Operations for the General Accounting Office. He will be accompanied by the Assistant Director for Government Business Operations, Teresa Anderson.

Over the past 2 years, GAO has proven to be a most productive partner with the subcommittee in reporting to us on a broad range of postal operations. I think it is important to note that the GAO has identified a number of initiatives the Postal Service could undertake to improve its performance. I look forward to Mr. Motley today highlighting these initiatives, especially to the extent to which the Service has followed up on the questions raised by GAO in its past reports to Congress.

Further, I understand GAO has a number of assignments pending. I hope Mr. Motley will report to us the status of these assignments and the impact these reports will have on assessing the productivity and efficiency of the Postal Service.

Our second panel of witnesses today is Postmaster General Marvin Runyon, who will be joined by Deputy PMG Michael Coughlin.

The last 2 years have been a banner financial period for the Postal Service. We have seen the Postal Service's ledger move from deficit spending to reporting surpluses of almost \$43.5 billion since the end of 1994.

Gentlemen, if the past financial performance of the Postal Service is an indicator of future results, your management of postal operations will stand as an example of how to best bring an organization around to sound business practices. Never in the 26-year history of the Postal Service have significant financial achievements of this magnitude been obtained.

But storm clouds do appear on the horizon. I note for the record that the recent accounting report for period 6, which is February 1st through February 28th, shows volumes and revenues less than projected. Recent new accounts speculate the Postal Service will seek a general rate increase sometime this summer, and postal officials have publicly projected a revenue surplus of \$55 million for this fiscal year. That is a marked decrease from last year's \$1.7 billion surplus.

Press reports on other service activities have not been positive, either. We have seen questions raised regarding last year's marketing department's budget overruns, and questions of ethics have dogged postal officials and cast a shadow over postal operations. As chairman of the subcommittee over the past 2 years, I have seen the organization post a strong financial performance. But Congress and the American people demand accountability from all facets of this institution. Questions regarding these operations only provides fodder to opponents of postal reform who use these instances as excuses to erect roadblocks to passage of our reform agenda.

While today's hearing is not specifically devoted to reform issues, I hope we will engage in a dialog which further provides a positive record on which this subcommittee can proceed in improving the postal service to this great country. Through that and our oversight efforts, we will continue to build a record in identifying necessary reforms in pursuit of ways to strengthen the one organization, the U.S. Postal Service, devoted and directed to performing the mission of providing affordable and universal mail service.

And with that, I gratefully acknowledge the arrival of the ranking member, the gentleman from Pennsylvania, Mr. Fattah. I would be happy to yield to him for any comments that he would like to make at this time.

Mr. FATTAH. Thank you, Mr. Chairman. I would like to have a prepared opening statement entered into the record, and thank you for convening this hearing.

I look forward to hearing the testimony from the Postmaster General in response to a whole range of issues. One is that obviously there has been a lot of success under the management that he has put in place and his team has put in place, but there are areas of concern, and we think that today's hearing is an appropriate place to both look at the successes and some of the issues that remain to be resolved. There are some questions that the public and this committee need to have answered relative to changes

in some of the procurement procedures, issues relative to the overall financial performance that I think obviously the Postmaster General is in the best position to answer, and I look forward to his testimony.

Mr. MCHUGH. I thank the gentleman.

[The prepared statement of Hon. Chaka Fattah follows:]

**OPENING STATEMENT OF THE HON. CHAKA FATTAH  
RANKING MEMBER, SUBCOMMITTEE ON THE POSTAL SERVICE  
GENERAL OVERSIGHT HEARING  
April 24, 1997**

Mr. Chairman, I wish to congratulate the Postmaster General for the record-breaking progress being made by the Postal Service with respect to its financial performance and its overnight service. I am very interested in finding out the reasons for this success and about how it will be sustained. I believe that that information should enable this subcommittee to better ensure that the Postal Service continues to deliver the mail in the most timely, cost effective, and secure manner possible.

While there is news to celebrate, there is also news that provokes concern. The Postal Service has been losing market share in five of its six product lines. I understand that this is, in part, due to the increasing availability and utilization of alternative communication methods. I am very interested in how the Postmaster General plans to address these trends.

Of special interest to me as we proceed with today's hearing will be the Postal Service's procurement practices and its management operations. Their integrity and efficiency are of critical importance. I am especially interested in finding out the extent to which minorities are participating and advancing in both of these areas.

Another area of interest to me is the state of labor/management relations within the Postal Service. I must say I find it distressing that the problems the General Accounting Office identified in this area in 1994 remain unresolved. In this regard, I look forward to talking



personally with the Postmaster General and the presidents of the postal unions about moving from conflict toward cooperation and greater productivity.

Finally, Mr. Chairman, I look forward to hearing from the representatives of the General Accounting Office. They have done a considerable amount of work for this subcommittee reviewing postal operations and making recommendations for improvement. I encourage the Postmaster General and his staff to work closely and cooperatively with them in the future.

Thank you.

Mr. MCHUGH. As great an admirer of the Postal Service as I am, I should be accurate. I said \$48.5 billion in surpluses; \$3.4 billion I believe is more correct. But we have set the bar for you, Marvin.

Mr. RUNYON. Thank you very much.

Mr. MCHUGH. As I said, I thank our ranking member.

I also am pleased we have been joined by the gentleman from Ohio, Mr. LaTourette. I would be happy to yield to him for any comments he might wish to make at this time.

Mr. LATOURETTE. I look forward to the testimony today from GAO and also the Postmaster.

In my part of the world, there are a number of questions. Although we commend the Postal Service for the righting of the fiscal ship, there are a number of questions regarding the closure of small post offices and how we deal with that situation in the future, as well as some questions about compensation packages that occurred during the course of the end of last year. But to move the hearing along, I would ask unanimous consent that my full opening remarks be included in the record of this proceeding.

Mr. MCHUGH. All Members will have the opportunity to submit opening statements for the record in their entirety.

He has not yet had a chance to settle in, but I am grateful that Mr. Davis has joined us here today. I would be happy to yield to him at this time if he would like to make any opening comment.

Mr. DAVIS. Well, I would, indeed. Thank you. Thank you very much, Mr. Chairman. I appreciate the opportunity to make a few remarks as we begin these proceedings.

I would also like to express appreciation to those who are going to be giving us information. As I understand it, the U.S. Postal Service's net income for fiscal year 1996 was \$1.6 billion, which was the second most profitable year in its history. I certainly would acknowledge and commend all of those who contributed to this remarkable year, from the Postmaster General and Inspector General to the frontline men and women postal employees. It is illustrative of the hard work that all of them have done.

I am interested in hearing today, in sort of an information-sharing process, and would want to raise a couple of concerns. They are mostly based upon information that I pick up from people as I travel throughout the district where I live and work.

I have some concerns relative to the alleged proposals to contract out services for the manufacturing of postal uniforms that may end up involving union shops. And while I am not suggesting that we only look in a certain direction, to certain kinds of activity, I do have some concerns about what I am hearing, relative to what the possibilities might be.

I also raise the concern and have some concerns about constituents of mine who are fearful that they may end up losing their jobs to substandard manufacturers if we go in certain kinds of directions. And I also have some concerns relative to the whole question of how we view affirmative action at the very highest level of the system.

And so those are the three major concerns that I have, and I certainly appreciate the opportunity to lay them out and hopefully we will hear responses to them in the testimony as the day proceeds.  
[The prepared statement of Hon. Danny K. Davis follows:]



Statement of Danny K. Davis  
Postal Service Subcommittee  
Thursday, April 24  
“General Oversight Hearing of the United States Postal Service”

Thank you Mr. Chairman for allowing me to express my thoughts and concerns on the issue of The State of the Postal Service. I would also like to acknowledge the panel of witnesses for coming here today and sharing with us their expertise and knowledge.

As I understand it, the United States Postal Service (USPS) net income for FY 96 was, \$1.6 billion dollars, the second most profitable year in its history. I acknowledge and commend all those parties that contributed to this remarkable year from the Postmaster General and Inspector General to the to the front line men and women postal employees. It is indeed illustrative of the hard work of them all.

I am interested in hearing from all of you today in a sort-of “information sharing” process. I would like to raise a few concerns and hope that they may be addressed today. These concerns are mostly based on constituent’s requests.

I do have concerns with alleged proposals to contract out services for manufacturers of postal uniforms to non-union shops. Although, I am not suggesting that we *require* the bids to be solicited by union shops only, I am concerned that the postal service may centralize procurement based on lowest-cost bids and I would urge you to make sure that the postal service does not condone a sweatshop-tolerant procurement system. I am aware of the need to cut costs, but I would think that there is a method to do this—and not off the backs of sweatshop labor.

We’ve all heard of the plight of many of the garment workers working in places where health and safety conditions are not always adhered to and a decent -paying, living wage is not provided—healthcare may be obsolete. Is this the kind of manufacturer that the USPS, a branch of the U.S. government, wants to conduct business with?

I raise this issue because constituents in my district have contacted me about the fear that they may lose their jobs to sub-standard manufacturers if the

Postal system creates a sweatshop-tolerant contracting system for postal uniforms.

I raise this point today because approximately 400,000 postal employees wear official uniforms, including shirts, jackets, trousers, hats and rainwear. Thus, we have the ability to create and/or sustain a number of good-paying jobs via our uniform manufacturer contracts. These jobs are vital components to the economies of the communities. I believe that one of the current manufacturers of the hats are Midway Caps, which is a union shop belonging to UNITE local 5H, in my district. Now, this may seem small to you, but this contract provides approximately 100 good-paying union jobs in my area. I am very pleased about this.

Again, Thank you very much for your time and I hope that you will consider my concerns.

Mr. MCHUGH. I thank the gentleman both for his presence and his expression of concern.

With that, I would welcome Mr. Motley and Ms. Anderson to the front table.

Please be seated. Before we undertake the committee rule of swearing in those who are about to testify, we have been joined by my fellow New Yorker, Mr. Owens. I would be happy to yield to him for any opening comments he might wish to make at this time.

Mr. OWENS. No, I have no opening statements.

Mr. MCHUGH. I thank the gentleman for joining us.

Stand please.

[Witnesses sworn.]

Mr. MCHUGH. The record will show that both of the witnesses answered the oath in the affirmative.

Thank you very much, both of you, for being here. I noted in my opening comments about the relationship between the GAO and you as individuals and this subcommittee. We are very appreciative of the very valuable information, and analyses you have provided us. A small sampling of that work is contained on the side table near the entrance, if some folks would like to take any or all of those differing documents. I think they will see very clearly how GAO has been a very productive partner in this oversight function.

So we welcome you here as colleagues and as friends. And we are very interested in the comments that you have to share with us today. Mr. Motley I would yield to you and you may proceed as you deem fit. Thank you.

**STATEMENT OF MICHAEL E. MOTLEY, ASSOCIATE DIRECTOR, GOVERNMENT BUSINESS OPERATIONS ISSUES, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY TERESA ANDERSON, ASSISTANT DIRECTOR, GOVERNMENT BUSINESS OPERATIONS ISSUES, U.S. GENERAL ACCOUNTING OFFICE**

Mr. MOTLEY. Thank you very much, Mr. Chairman. I appreciate those kind comments about the work we've done over the last several years, and we, too, have enjoyed the relationship that we have had not only with the subcommittee here but with the Postal Service as well.

While you introduced Ms. Anderson, I'll mention that Ms. Anderson is the focal point for our postal activities within the Government Business Operations Issues area.

With that, Mr. Chairman, I would like to state I would like to summarize my statement today but ask that it be included in full in the record.

Mr. MCHUGH. Without objection, so ordered.

Mr. MOTLEY. Mr. Chairman, and members of the subcommittee, we are pleased to be here today to participate in the subcommittee's oversight hearing on the U.S. Postal Service. My testimony will focus on the performance of the Postal Service and the need for improving internal controls and protecting revenue in an organization that takes in and spends billions of dollars each year, and I'd like to also highlight some of the key reform and oversight issues that continue to challenge the Postal Service and Congress as they consider how U.S. mail service will be provided in the future.

I will also provide some observations from our ongoing work.

First, I would like to discuss both the reported successes and some of the remaining areas of concern related to the Postal Service's performance. Last year, the Postal Service reported that it had achieved outstanding financial and operational performance. Financially, the Postal Service had the second most profitable year in its history. According to the Postal Service, its fiscal year 1996 net income was \$1.6 billion. Additionally, the Postal Service continued to meet or exceed its goals for on-time delivery of Overnight Mail, with its last quarter of 1996 showing a delivery rate of overnight local residential mail at 91 percent at on-time or better service.

Also, in fiscal year 1996, the Postal Service mail volume exceeded 182 billion pieces and generated more than \$56 billion in revenue.

While these results are encouraging, other performance data suggests that some areas of concern warrant closer scrutiny. For example, last year's delivery of 2- and 3-day mail at 80 and 83 percent, respectfully, didn't score as high as overnight delivery. Such performance has raised the concern that Postal Service's emphasis on overnight delivery is at the expense of 2- and 3-day mail.

Additionally, although its mail volume continues to grow, the Postal Service is concerned that customers increasingly are turning to its competitors or alternative communications methods. In 1996, mail volume increased by about one-half the Service's anticipated increase in volume.

Containing costs is another key challenge that we reported on previously. Labor costs, which include pay and benefits, continue to account for almost 80 percent of the Postal Service's operating expenses, and the Postal Service expects that its costs for compensation and benefits will grow more than 6 percent in 1997. Overall, the next 5 years the Postal Service plans to devote more than \$14 billion in capital investments to technology and infrastructure improvements in customer service and revenue initiatives.

The Postal Service's continued success in both operational and financial performance will depend heavily on its ability to control operating costs, strengthen internal controls, and ensure the integrity of its services. However, we found several weaknesses in the Postal Service's internal controls that contributed to unnecessary increased cost. We reported in October 1996 that internal controls over Express Mail corporate accounts were weak or nonexistent, which resulted in the potential for abuse and increasing revenue losses over the past three fiscal years.

Specifically, we found that some mailers obtained Express Mail services using invalid EMCAs and that the Postal Service did not collect the postage due. Consequently, in fiscal year 1995, the Postal Service lost Express Mail revenue of about \$800,000 primarily because it did not verify EMCA accounts that were later determined to be invalid. Since our report was issued, the Postal Service has taken action or developed plans to address these deficiencies.

Similarly, we reported in June 1996, the weaknesses in the Postal Service controls for accepting bulk mail prevented it from having reasonable assurance that all significant amounts of postage revenue due were received when mailers claimed presort/prebarcode discounts. We reported that during fiscal 1994, as much as 40 percent of the required bulk mail verifications were not performed. Bulk mail totaled almost one-half the Postal Service's total revenue

of \$47.7 billion in fiscal year 1994. At the same time, we found that less than 50 percent of the required followup verifications to determine the accuracy of the clerk's work were being performed by supervisors.

Another area of recent concern has been the overall integrity of the Postal Service's acquisitions. We concluded in our January 1996 report that the Postal Service did not follow required procedures for seven real estate or equipment purchases. We estimated that these seven purchases resulted in the Postal Service's expending about \$89 million on penalties, unusable, or marginally usable property. Three of the seven purchases involved ethics violations arising from the contracting officer's failure to correct situations in which individuals had financial relationships with the Postal Service and with certain offerors.

We also pointed out that the Office of Government Ethics was reviewing the Postal Service's ethics program and reported that all areas required improvement. The Office of Government Ethics subsequently made a number of recommendations designed to ensure that improvement of the Postal Service's ethics programs continue through more consistent oversight and management support.

Since our January 1996 report, the Office of Government Ethics has completed three reviews to followup on its open recommendations. Recently, the Postal Service developed guidance for avoiding conflicts of interest and filing financial disclosure reports as well as established procedures to ensure that the Office of Government Ethics is notified about all conflict of interest violations that are referred to the Department of Justice. As a result of these actions, the Office of Government Ethics closed its remaining open recommendations.

Recently, we issued a report that described how the Postal Service closes post offices and provides information on the number of closed since 1970, over 3,900 post offices. In addition, yesterday we issued a letter to you, Mr. Chairman, about the emergency suspension of post offices which states that about 470 post offices currently are in emergency suspension status. These 470 have been in this status anywhere from a few days to over 10 years.

The second area I would like to discuss is the pending postal legislation. This legislation, if enacted, might place the Postal Service in a more competitive arena with its private sector counterparts and has raised some key reform issues for consideration. One such issue relates to proposed changes in the private express statutes. These statutes were set up to ensure that the Postal Service has enough revenue to provide universal access to postal services, to the general public, and that certain mail such as First Class will bear a uniform rate.

In our September 1996 report, we emphasized the importance of recognizing the statutes' underlying purpose in determining how changes may affect universal mail service and uniform rates. Most important among the potential consequences is that relaxing the statutes could open First Class Mail services to additional competition, thus possibly affecting postal revenues and rates and the Postal Service's ability to carry out its public service mandates.

Mr. Chairman, as you are aware, we also have a number of ongoing reviews relating to postal reform. For example, in concert with



your focus on the future role of the Postal Service, we are currently reviewing the role and structure of the Postal Service's Board of Governors in order to determine its strengths and weaknesses.

Another issue important to postal reform that we are reviewing involves access to mailboxes. Congressional oversight remains a key to improving the organizational performance of the post office.

Generally, the long-standing labor management problems we identified in 1994 still remain unresolved despite the initiatives that have been established to address them. For example, the number of grievances requiring formal arbitration has increased 76 percent, from 51,000 in fiscal 1993 to over 90,000 in fiscal year 1996. These difficulties continue to plague the Service primarily because the major postal stakeholders cannot all agree on common approaches to addressing their problems.

The Government Performance and Results Act provides a mechanism that may be useful in focusing a dialog that could lead to a framework agreement. GPRA provides a legislatively based method for the stakeholders, including Congress, to jointly engage in discussions that focus on an agency's mission and on establishing goals, measuring performance, and reporting on mission-related accomplishments. GPRA can be instrumental to the Postal Service's efforts to better define its current and future role.

Finally, several other areas will likely continue to require the attention of both the Postal Service and Congress. One such area is the Postal Service's automation efforts. The Postal Service has spent billions of dollars to ensure that an increase in productivity and an adequate return in planned investments are realized.

Another area is the Postal Service's 5-year capital investment plan from 1997 to the year 2001. It calls for investing \$14.3 billion of which \$3.6 billion is designated for technology investment. Also included is \$6.6 billion for planned infrastructure improvements such as maintaining and improving over 35,000 postal facilities and upgrading the vehicle fleet of more than 200,000 vehicles. In addition, customer satisfaction in both the residential and business levels will continue to be critical areas as the Postal Service strives to improve customer service in order to remain competitive.

The Postal Service has made considerable progress in improving its financial and operational performance. Sustaining this progress will be dependent upon ensuring that key issues that we identified such as controlling costs, protecting the revenues, and clarifying the role of the Postal Service in an increasingly competitive communications market are effectively addressed by the Postal Service and Congress.

Mr. Chairman, that concludes my statement, and we would be happy to respond to any questions you or any of the other members of the subcommittee may have.

Mr. McHUGH. Thank you very much, Mr. Motley. I appreciate your testimony.

[The prepared statement of Mr. Motley follows:]

## **U.S. Postal Service: Continued Challenges to Maintaining Improved Performance**

### **Summary Statement of Michael E. Motley, Associate Director Government Business Operations Issues**

GAO's testimony addresses the challenges that confront Congress and the Postal Service as they consider how to sustain its performance and maintain a competitive role in providing mail service to the American public in the future.

The Postal Service reported that fiscal year 1996 represented the second year in a row that its financial performance was profitable and operational performance improved. The Postal Service's 1996 net income was \$1.6 billion and it delivered 91 percent of overnight mail on time. Additionally, for fiscal year 1996, the Postal Service's volume exceeded 182 billion pieces of mail and generated more than \$56 billion in revenue.

While these results are encouraging, other performance data suggest that some areas warrant closer scrutiny. Last year's delivery of 2-day and 3-day mail—at 80 and 83 percent respectively—did not score as high as overnight delivery. The concern among customers is that the Postal Service's emphasis on overnight delivery is at the expense of 2-day and 3-day mail. Additionally, although its mail volume continues to grow, the Postal Service is concerned that customers increasingly are turning to its competitors or alternative communications methods. In 1996, mail volume increased by about one-half of the Postal Service's anticipated increase in volume. Containing costs is another key challenge that GAO has reported on previously. For example, last year's operating expenses increased 4.7 percent compared to a 3.9 percent increase in operating revenues. GAO has also found several weaknesses in the Postal Service's internal controls that contributed to increased costs. The Postal Service's continued success in both financial and operational performance will depend heavily on controlling operating costs, strengthening internal controls, and ensuring the integrity of its services.

The prospect that pending postal legislation may place the Postal Service in a more competitive arena with its private sector counterparts has prompted congressional consideration of some key reform issues. These issues include how proposed changes to the Private Express Statutes may affect universal mail service, postal revenues, and rates. Another reform issue is the future role of the Postal Service in an increasingly competitive, constantly changing communications market.

Congressional oversight remains a key tool for improving the organizational performance of the Postal Service. One of the most important areas for oversight is labor-management relations. Despite the initiatives that have been established to address them, the long-standing labor-management relations problems GAO identified in 1994 remain unresolved. The Government Performance and Results Act provides an important avenue for stakeholders in reaching a consensus for addressing such problems. Also, the Postal Service's automation efforts will continue to require the attention of both the Postal Service and Congress to ensure that increased productivity and an adequate return on investments are realized.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to participate in the Subcommittee's oversight hearing on the U.S. Postal Service. My testimony will (1) focus on the performance of the Postal Service and the need for improving internal controls and protecting revenue in an organization that takes in and spends billions of dollars each year and (2) highlight some of the key reform and oversight issues that continue to challenge the Postal Service and Congress as they consider how U.S. mail service will be provided in the future. I will also provide some observations from our ongoing work relating to labor-management relations at the Postal Service and other areas. My testimony is based on our ongoing work and work that we completed over the past year.

Improving Internal Controls and Revenue Protection Remains a Concern

First, I would like to discuss both the reported successes and some of the remaining areas of concern related to the Postal Service's performance. Last year, the Postal Service reported that it had achieved outstanding financial and operational performance. Financially, the Postal Service had the second most profitable year in its history. According to the Postal Service's 1996 annual report, its fiscal year 1996 net income was \$1.6 billion. Similarly, with regard to mail delivery service, the Postal Service continued to meet or exceed its goals for on-time delivery of overnight mail. Most recently, the Postmaster General announced that, during 1996, the Postal Service delivered 91 percent

of overnight local residential mail on time or better. Additionally, during fiscal year 1996, the Postal Service's volume exceeded 182 billion pieces of mail and generated more than \$56 billion in revenue.

While these results are encouraging, other performance data suggest that some areas of concern warrant closer scrutiny. For example, last year's delivery of 2-day and 3-day mail—at 80 and 83 percent respectively—did not score as high as overnight delivery. Such performance has raised a concern among some customers that the Postal Service's emphasis on overnight delivery is at the expense of 2-day and 3-day mail. Additionally, although its mail volume continues to grow, the Postal Service is concerned that customers increasingly are turning to its competitors or alternative communications methods. In 1996, mail volume increased by about one-half of the Service's anticipated increase in volume.

Containing costs is another key challenge that we reported on previously. In the area of expenditures, the Postal Service's 1996 annual report showed that its 1996 operating expenses increased 4.7 percent compared to a 3.9 percent increase in operating revenues. Labor costs, which include pay and benefits, continued to account for almost 80 percent of the Postal Service's operating expenses, and the Postal Service expects that its costs for compensation and benefits will grow more than 6 percent in 1997. Moreover, controlling costs will be critical with regard to capital investments in 1997, as the Postal Service plans to commit \$6 billion to capital improvements. Over the next 5 years, the

Service plans to devote more than \$14 billion in capital investments to technology, infrastructure improvements, and customer service and revenue initiatives.

The Postal Service's continued success in both operational and financial performance will depend heavily on its ability to control operating costs, strengthen internal controls, and ensure the integrity of its services. However, we found several weaknesses in the Postal Service's internal controls that contributed to unnecessary increased costs.

We reported in October 1996<sup>1</sup> that internal controls over Express Mail Corporate Accounts (EMCA) were weak or nonexistent, which resulted in the potential for abuse and increasing revenue losses over the past 3 fiscal years. Specifically, we found that some mailers obtained express mail services using invalid EMCA and that the Postal Service did not collect the postage due. Consequently, in fiscal year 1995, the Postal Service lost express mail revenue of about \$800,000 primarily because it had not verified EMCA that were later determined to be invalid.

Since our report was issued, the Postal Service has taken action or developed plans to address these deficiencies. The Postal Service revised its EMCA regulations to require an initial deposit of \$250, up from \$100, to open an account. In addition, in a March 27, 1997, letter to EMCA customers, the Postal Service stated that effective immediately a

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<sup>1</sup>U.S. Postal Service: Revenue Losses From Express Mail Accounts Have Grown (GAO/GGD-97-3, Oct. 24, 1996).

minimum account balance of \$250, or 4 weeks' worth of average postage, whichever is higher, must be maintained. Prior to this change, customers were required to maintain a balance of \$50 in their accounts. The Postal Service also recently issued a memorandum requiring district managers to ensure that employees perform the necessary express mail acceptance checks so that the correct postage amounts can be collected. Finally, the Postal Service plans to install terminals in mail processing plants to allow Express Mail packages that are deposited in collection boxes or picked up at customers' locations to be checked for valid EMCA numbers before they are accepted into the mail system.

Similarly, we reported in June 1996<sup>2</sup> that weaknesses in the Postal Service's controls for accepting bulk business mail prevented it from having reasonable assurance that all significant amounts of postage revenue due were received when mailers claimed presort/barcode discounts. We reported that during fiscal year 1994, as much as 40 percent of required bulk mail verifications were not performed. Bulk mail totaled almost one-half of the Postal Service's total revenue of \$47.7 billion in fiscal year 1994. At the same time, we found that less than 50 percent of the required follow-up verifications to determine the accuracy of the clerk's work were being performed by the supervisors. In response to our recommendations, the Postal Service is developing new and strengthening existing internal controls to help prevent revenue losses in bulk mailings. For example, the Postal Service plans to improve the processes used in the verification of mail,

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<sup>2</sup>U.S. Postal Service: Stronger Mail Acceptance Controls Could Help Prevent Revenue Losses (GAO/GGD-96-126, June 25, 1996).

including how units are staffed, how verifications are performed, and how results of acceptance work are reported and reviewed.

Another area of recent concern has been the overall integrity of the Postal Service's acquisitions. We concluded, in our January 1996 report,<sup>3</sup> that the Postal Service did not follow required procedures for seven real estate or equipment purchases. We estimated that these seven purchases resulted in the Postal Service's expending about \$89 million on penalties, unusable, or marginally usable property. Three of the seven purchases involved ethics violations arising from the contracting officers' failure to correct situations in which individuals had financial relationships with the Postal Service and with certain offerors. We also pointed out that the Office of Government Ethics was reviewing the Postal Service's ethics program and reported that all areas of the program required improvement. The Office of Government Ethics subsequently made a number of recommendations designed to ensure that improvement of the Postal Service's ethics program continues through more consistent oversight and management support.

Since our January 1996 report, the Office of Government Ethics has completed three reviews to follow up on its open recommendations. Recently, the Postal Service developed guidance for avoiding conflicts of interest and filing financial disclosure reports as well as established procedures to ensure that the Office of Government Ethics is

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<sup>3</sup>Postal Service: Conditions Leading to Problems in Some Major Purchases (GAO/GGD-96-59, Jan. 18, 1996).

notified about all conflict-of-interest violations that are referred to the Department of Justice. As a result of these actions, the Office of Government Ethics closed its remaining open recommendations.

Additionally, strengthening program oversight is essential to effective mail delivery. We found that the Postal Service did not exercise adequate oversight of its National Change of Address (NCOA) program.<sup>4</sup> We reported that the Postal Service took a positive step toward dealing with the inefficiencies of processing misaddressed mail. However, at the same time, we found that the NCOA program was operating without clear procedures and sufficient oversight to ensure that the program was operating in compliance with the privacy provisions of federal laws. Accordingly, we recommended that the Postal Service strengthen oversight of NCOA by developing and implementing written oversight procedures. In response to our recommendation, the Postal Service developed written oversight procedures for the NCOA program.

Most recently, we issued a report<sup>5</sup> that describes how the Postal Service closes post offices and provides information on the number closed since 1970—over 3,900 post offices. We also provided information on the number of appeals and their dispositions, as well as some information about the communities where post offices were closed in fiscal years

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<sup>4</sup>U.S. Postal Service: Improved Oversight Needed to Protect Privacy of Address Changes (GAO/GGD-96-119, Aug. 13, 1996).

<sup>5</sup>U.S. Postal Service: Information on Post Office Closures, Appeals, and Affected Communities (GAO/GGD-97-38BR, Mar. 11, 1997).



1995 and 1996. Generally, the Postal Service initiated the closing process after a postmaster vacancy occurred through retirement, transfer, or promotion or after the termination of the post office building's lease. In each case, the Postal Service proposed less costly alternative postal services to the affected community, such as establishing a community post office operated by a contractor or providing postal deliveries through rural routes and cluster boxes.

#### Key Reform Issues

The second area I would like to discuss is the pending postal legislation. This legislation, if enacted, might place the Postal Service in a more competitive arena with its private sector counterparts and has raised some key reform issues for consideration. One such issue relates to proposed changes to the Private Express Statutes. These Statutes were set up to ensure that the Postal Service has enough revenue to provide universal access to postal services to the general public and that certain mail, such as First-Class, will bear a uniform rate. In our September 1996 report,<sup>6</sup> we emphasized the importance of recognizing the Statutes' underlying purpose and determining how changes may affect universal mail service and uniform rates. Most important among the potential consequences is that relaxing the Statutes could open First-Class mail services to additional competition, thus possibly affecting postal revenues and rates and the Postal

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<sup>6</sup>Postal Service Reform: Issues Relevant to Changing Restrictions on Private Letter Delivery (GAO/GGD-96-129A/B, Sept. 12, 1996).

Service's ability to carry out its public service mandates. However, at the same time, the American public could benefit through improved service. It will be important to take into account the possible consequences for all stakeholders in deciding how mail services will be provided to the American public in the future.

Another key reform issue is the future role of the Postal Service in the constantly changing and increasingly competitive communications market. For example, the use of alternative communications methods such as electronic mail, faxes, and the Internet continues to grow at phenomenal rates in the United States and is beginning to affect the Postal Service markets. At the same time, the Postal Service's competitors continue to challenge it for major shares of the communications market. According to the Postmaster General, the Postal Service has been losing market share in five of its six product lines. It seems reasonable to assume that these alternative communications methods are likely to be used more and more. In addition, international mail has become an increasingly vital market in which the Postal Service competes. In our March 1996 report,<sup>7</sup> we pointed out that, although the Postal Service has more flexibility in setting international rates, it still lost business to competitors because rates were not competitive and delivery service was not reliable. We also identified several issues surrounding the Postal Service's role in the international mail arena that remain unresolved. Chief among them is the

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<sup>7</sup>U.S. Postal Service: Unresolved Issues in the International Mail Market (GAO/GGD-96-51, Mar. 11, 1996).

appropriateness of the Postal Service's pricing practices in setting rates for international mail services.

We also reviewed postal reform in other countries to learn about their experiences. Recently, we issued a report<sup>8</sup> on Canada's efforts since 1981 to reform its postal service, the Canada Post Corporation (CPC). Although CPC retained basic letter mail services at a uniform rate, it also reduced the frequency of mail delivery to some businesses, as well as in urban and rural areas. CPC uses a regulatory rate-making process that includes the opportunity for public comment and government approval for basic domestic and international single-piece letters. However, postage rates for other mail services can be approved by CPC without issuing regulations or obtaining government approval. Some of the key concerns that have been raised by CPC customers include CPC's closure of rural post offices and its conversion of others to private ownership. In addition, CPC's competitors have expressed concern about whether CPC is cross-subsidizing the prices of its courier services with monopoly revenues. The Canadian government has responded to these concerns by continuing its moratorium on post office closings and directing CPC to discontinue delivery of unaddressed advertising mail. The government is also considering a call for additional government oversight of CPC.

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<sup>8</sup>Postal Reform in Canada: Canada Post Corporation's Universal Service and Rate-making (GAO/GGD-97-45BR, Mar. 5, 1997).

Mr. Chairman, as you are aware, we also have a number of ongoing reviews related to postal reform. For example, in concert with your focus on the future role of the Postal Service, we are currently reviewing the role and structure of the Postal Service's Board of Governors in order to determine its strengths and weaknesses. The Board of Governors is responsible for directing and controlling the expenditures of the Postal Service, reviewing its practices, participating in long-range planning, and setting policies on all postal matters. In addition to obtaining the views of current and former Board members, we plan to provide information on the role and structure of Boards in other types of government-created organizations. Another issue important to postal reform that we are reviewing involves access to mailboxes. More specifically, we plan to provide information on (1) public opinions on the issue of mailbox restrictions; (2) views of the Postal Service and other major stakeholders; and (3) this country's experience with mailbox security and enforcement of related laws, compared with the experiences in selected other countries.

#### Oversight of the Postal Service Remains Important

Congressional oversight remains a key to improving the organizational performance of the Postal Service. One of the most important areas for oversight is labor-management relations. As the Postal Service focuses on the significant challenges it faces to compete in today's communications marketplace, unresolved labor-management relations disputes continue to hinder efforts to improve productivity. Generally, the long-standing labor

management problems we identified in 1994 still remain unresolved, despite the initiatives that have been established to address them.<sup>9</sup> For example, the number of grievances requiring formal arbitration has increased almost 76 percent, from about 51,000 in fiscal year 1993 to over 90,000 in fiscal year 1996. These difficulties continue to plague the Service primarily because the major postal stakeholders (the Postal Service, four major unions, and three management associations) cannot all agree on common approaches for addressing their problems. We continue to believe that until the major postal stakeholders develop a framework agreement that would outline common objectives and strategies, efforts to improve labor-management relations will likely continue to be fragmented and difficult to sustain.

The Government Performance and Results Act (GPRA) provides a mechanism that may be useful in focusing a dialogue that could lead to a framework agreement. GPRA provides a legislatively based mechanism for the major stakeholders, including Congress, to jointly engage in discussions that focus on an agency's mission and on establishing goals, measuring performance, and reporting on mission-related accomplishments. GPRA can be instrumental to the Postal Service's efforts to better define its current and future role.

GPRA also emphasizes the need for stakeholders to recognize and address key internal and external factors that could affect the ability to achieve future goals. The GPRA

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<sup>9</sup>U.S. Postal Service: Labor-Management Problems Persist on the Workroom Floor (GAO/GGD-94-201A/B, Sept. 29, 1994).

consultation process provides the major postal stakeholders and Congress with opportunities to better understand the Service's mission, proposed goals, and most importantly, the strategies to be used in attaining these goals, especially those that relate to the long-standing labor-management relations problems that challenge the Service. Given these challenges, GPRA provides a forum for stakeholders to participate in developing and reaching consensus on strategies for attaining results-oriented goals.

One such opportunity for obtaining stakeholder participation is by inviting input on proposed goals and strategies. The Service recently issued a notice for public comment in the Federal Register asking for comments by June 1, 1997, on how the Service can best achieve the three major goals identified in the Federal Register notice. This comment period provides an opportunity for those who might be affected by decisions relating to the future of the Postal Service to voice their views on the strategies to be used by the Postal Service. Other forums may also be appropriate to further discuss issues that may be pertinent to specific stakeholders during this stage of the implementation process.

As results-oriented goals are established, the related discussions can also provide a foundation for the stakeholders to reach consensus on a framework agreement. Successful labor-management relations will be critical to achieving the Postal Service's goals. The Postal Service and Congress will need results-oriented goals and sound performance information to most effectively address some of the policy issues that surround the Postal Service's performance in a dynamic communications market.

Recognizing that the changes envisioned by GPRA do not come quickly or easily, sustained oversight by the Postal Service and Congress will be necessary.

Finally, several other areas will likely continue to require the attention of both the Postal Service and Congress. One such area is the Postal Service's automation efforts. The Postal Service has spent billions of dollars to ensure that an increase in productivity and an adequate return on planned investments are realized. Another area is the Postal Service's 5-year capital investment plan for 1997-2001. It calls for investing \$14.3 billion, of which \$3.6 billion is designated for technology investments. Also included is \$6.6 billion for planned infrastructure improvements such as maintaining and improving over 35,000 postal facilities and upgrading the vehicle fleet of more than 200,000 vehicles. In addition, customer satisfaction at both the residential and business levels will continue to be a critical area as the Postal Service strives to improve customer service in order to remain competitive.

The Postal Service has made considerable progress in improving its financial and operational performance. Sustaining this progress will be dependent upon ensuring that the key issues we identified, such as controlling costs, protecting revenues, and clarifying the role of the Postal Service in an increasingly competitive communications market, are effectively addressed by the Postal Service and Congress.

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Mr. Chairman, this concludes my prepared statement. I have attached a list of our Postal Service products issued since January 1996. I would be pleased to respond to any questions you or members of the Subcommittee may have.



ATTACHMENT

ATTACHMENT

**GAO Postal-Related Products Issued Since January 1, 1996**

U.S. Postal Service: Information on Emergency Suspensions of Operations at Post Offices  
(GAO/GGD-97-70R, April 23, 1997).

U.S. Postal Service: Information on Post Office Closures, Appeals, and Affected Communities  
(GAO/GGD-97-38BR, Mar. 11, 1997).

Postal Reform in Canada: Canada Post Corporation's Universal Service and Ratemaking  
(GAO/GGD-97-45BR, Mar. 5, 1997).

U.S. Postal Service: Revenue Losses From Express Mail Accounts Have Grown  
(GAO/GGD-97-3, Oct. 24, 1996).

Postal Service: Controls Over Postage Meters (GAO/GGD-96-194R, Sept. 26, 1996).

Inspector General: Comparison of Certain Activities of the Postal IG and Other IGs  
(GAO/AIMD-96-150, Sept. 20, 1996).

Postal Service Reform: Issues Relevant to Changing Restrictions on Private Letter Delivery  
(GAO/GGD-96-129A/B, Sept. 12, 1996).

U.S. Postal Service: Improved Oversight Needed to Protect Privacy of Address Changes  
(GAO/GGD-96-119, Aug. 13, 1996).

U.S. Postal Service: Stronger Mail Acceptance Controls Could Help Prevent Revenue Losses  
(GAO/GGD-96-126, June 25, 1996).

U.S. Postal Service: Unresolved Issues in the International Mail Market  
(GAO/GGD-96-51, Mar. 11, 1996).

Postal Service: Conditions Leading to Problems in Some Major Purchases  
(GAO/GGD-96-59, Jan. 18, 1996).

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Mr. MCHUGH. Let me begin by getting to one of the, I think, key components of both the studies that you have been doing, and certainly one of the key questions that this subcommittee has been looking at, and that is trying to structure postal service for the 21st century.

Any number of your reports, as you have recounted here today, in recent months have pointed out some difficulties, at best, and some might argue very serious operational difficulties within the Postal Service. You talked about in past reports and in your testimony today the internal controls over Express Mail corporate accounts. You have talked about the bulk mail acceptance practices, as you noted here this afternoon, that perhaps placed as much as \$9.5 billion of revenues at risk. And you talked about the ethics situation that particularly pertained to acquisitions and how that has been very problematic.

In your testimony you noted—and as I read the Postmaster General's testimony that he will present later to us—that the post office has begun to move on these findings.

Mr. MOTLEY. Yes, sir.

Mr. MCHUGH. The words used was “taken action” or “developed plans” here today, and that is a positive thing.

Mr. MOTLEY. Yes, sir.

Mr. MCHUGH. That is what I suppose you feel you are in existence for, to have that statement and then the subsequent reaction.

Mr. MOTLEY. That's right.

Mr. MCHUGH. The question that we have to look at in providing the Postal Service with more flexibility is, do they deserve it and can they be trusted with it?

I was just going to say, beyond having taken action or developed plans, in your judgment, or are you able to form a judgment, have those actions been enough? Will they be sufficient? Are they still falling short? And do they deserve more flexibility?

Mr. MOTLEY. I think, Mr. Chairman, there are a lot of ways to respond to your question. I think it's important to note at first that all the areas that we've looked at, the ones that you have mentioned, bulk mail, EMCA accounts, and the ethics issues and the procurement, all of these areas had internal controls in place. And it was the Postal Service and the management in the Postal Service that didn't give proper attention to those existing management and internal controls that resulted in the kind of problems that existed.

Our reports, I think, brought these things further to the attention of the Postal Service, and as a result of those they've said that now is the opportunity for us to strengthen those controls to change some of our policies.

I think it's important, Mr. Chairman, at this point the watchword for the GAO, I believe, as well as the subcommittee, is continued oversight. I think we need to continue to watch how these kinds of management actions are being implemented by the Postal Service. See if these internal controls really are effective, that they've been put in place, and continue to revisit these issues through continued oversight.

Your question about whether or not they should have greater flexibility and responsibility becomes a difficult one. I think with

that greater flexibility and responsibility, continued oversight is also necessary. So I wouldn't suggest that in any way that we should just let the Postal Service go on and take on more and more responsibility, but there should be a partnership that exists with the subcommittee as well as other oversight entities within the Postal Service itself, to keep a watchword on these things.

Mr. MCHUGH. So it is a work in progress?

Mr. MOTLEY. Yes, sir, I would say so.

Mr. MCHUGH. You don't have any particular criticisms to levy at this point, but urge oversight and caution; is that right?

Mr. MOTLEY. I would say so. If I were to say anything, Mr. Chairman, with regard to a watchword, is GAO's been auditing the Postal Service for a very long time. I know that table over there is fairly large but we probably could have brought in about 350 GAO reports that deal with the Postal Service, and I would suggest to you that many of them are on the same issues.

With regard to ethics issues that are addressed in our testimony, and that you mentioned, if you look at what the Office of Government Ethics did, I mean, if you went back to 1978, many of these issues were brought to their attention; its now 1997, it's taken a long time for changes to take place.

Mr. MCHUGH. I have no doubt you could fill that table, and any number of others.

Let's take a few steps into the future. You mentioned oversight, and I suppose that is related in some ways to participation in forming the future. I am thinking specifically about the GPRA.

You noted in your testimony one of the more troubling aspects of the current postal situation is the continuous strife between labor and management. I couldn't agree more. You offer the hope that GPRA can provide a means by which to begin to settle some of those issues.

Mr. MOTLEY. Yes, sir.

Mr. MCHUGH. Provide a framework for the beginning.

Do you have any opinions at this time as to how serious an effort may be provided? There seems to be some discussion as to when a pre-draft of the final Postal Service report may be available and if it will be available in a timeframe that makes meaningful input and discussion possible? Have you had a chance to look at that question?

Mr. MOTLEY. We've had some discussions, a fair number of discussions, actually, with the Postal Service, and we have been coordinating with the subcommittee. And as you know, GPRA provides a fair amount of guidance with regard to the kind of goals and strategies that will be looked for by the Congress, I think, when the final reports arrive on September 30th. However, GPRA has some very significant milestones in it. I would conclude that those milestones include having conversations and consultations with the oversight entities up here on the Hill as well as with their individual stakeholders.

The discussions that we've had to date, the Postal Service is not at a point where they have a draft document that can be a forum for consultation to a great degree in identifying what their goals are and the actual strategies in getting to those goals. As a result, the stakeholders don't have that opportunity either to get a better

understanding of what the Postal Service's goals are nor the strategies which could have a significant impact on them, so the draft document becomes a very important one. Here we are in this time of the year, and September is coming up on us very quickly, so I would suggest, Mr. Chairman, that having that draft sooner than later is going to be a very important factor.

Mr. McHUGH. Well, maybe there are some people in this room who heard that. I did.

Mr. MOTLEY. OK.

Mr. McHUGH. I was hoping that the ranking member who had to step out momentarily would be able to be back before I yielded but obviously his business is taking a bit more time. We have a number of Members who have very kindly joined us so I want to be sure to yield them time. And according to the rules, I now yield to Mr. LaTourette for any questions he might have.

Mr. LATOURETTE. Thank you very much, Mr. Chairman.

As I looked at your written testimony today, and also the report of March of this year regarding post office closings, I had a couple of questions; one, about the grievance procedure, and, two, about post office closings.

As I looked at the statistics in the March report, and I focused on the number of post office closings that were appealed, it appeared to me, if I read your statistics accurately, that of the appeals filed in the vast majority of cases, the post office was permitted to proceed with whatever its original plan had been, and 20 percent of them, roughly 2 out of 10 were sent back to the Service for review and further disposition.

Has there been any followup to that? Is there any success rate at all I guess is what I am asking you when a community appeals the closure of its postal facility?

Mr. MOTLEY. I don't have the numbers at my fingertips, Congressman LaTourette, but we can certainly provide those for the record. There are instances where the Postal Service does decide to reopen the facility, but I will provide those for the record.

[The information referred to follows:]

In our report on post office closures, we stated that according to the Service, of the 296 post office closure decisions appealed to the PRC, 58 closure decisions were remanded back to the Service by PRC. According to the Service, as of May 27, 1997, 27 or 47 percent of these post offices remain open and the Service has no immediate plans to close them. For 9 other post offices that remain open, 6 are in the final stages of being officially closed and 3 are under review for a final determination of whether or not to officially close. The Service has officially closed the post offices for the remaining 22, or 38 percent, of the post office closure decisions remanded by PRC.

Mr. LATOURETTE. And, I guess the difficulty that I have with, certainly not with the report because it is very well done, but with this concept, and what people always come up to me at home and say "the Postal Service is more than a business."

And what they are concerned about—everybody applauds the fact that we have had a net income of \$1.6 billion and this is the second profitable year and things are going good, but the senior citizen who relies on the opportunity to cross the street and go to her or his post office and buy stamps and knows the postal clerk, that it is more than just somebody handing out letters or stuffing stuff in their mailbox.

And as you looked at the closing procedure, it appeared that it was almost an attrition type thing. That the Postal Service wasn't taking affirmative action but when a Postmaster resigned or retired or was transferred or the lease on the building ran out that is when the vast majority of closings were occurring.

Mr. MOTLEY. That is generally what triggers or causes the Postal Service to consider the closing action, yes, sir.

Mr. LATOURETTE. The last question is on the appeal process. Do you have a sense that the concerns of the affected community are adequately and fairly heard by the Service as they go through the appeal process in reaching their eventual conclusion?

Mr. MOTLEY. Actually, we were looking at the process and the various things in the process. We didn't look behind, as you might suggest, really the concerns that the community brought up.

The role that the Postal Rate Commission plays in that way is to look at whether or not the Postal Service in some way has addressed the concerns of the community, and if they believe that they have not, then they remand it back to the Postal Service for further work.

Mr. LATOURETTE. OK.

The second set of questions I have deal with the grievances, because that is something that has been brought to my attention. And just three sets of separate news stories that I saw over the course of the fall, one was the \$1.6 billion net income by the Postal Service.

The second one that appears in a number of stamp collector magazines and other articles had to do with bonuses being paid to supervisors in the Postal Service, and then the third, which you reflect in your report, has also been in print other places, that we have had an increase, a 76 percent increase in grievances filed against the Postal Service.

Some would argue, and some in Ohio that contact me from time to time, say that those three events are not unrelated. And in that the pressure to turn a service that has been financially troubled into a money maker, if you will, has led to the need to incentivize supervisors and hand out bonuses which has placed pressure upon those supervisors to become—I am at a loss for the words, “stringent” comes to the mind, but I think you know what I mean—upon the rank and file postal worker that has led to a 76 percent increase in grievance filings.

Is there anything from your study that reflects on that one way or another?

Mr. MOTLEY. I might take you back a little bit, to an earlier study that GAO did. It was in 1994. It was issued in September 1994. That dealt with the labor management relations in the Postal Service.

That report characterized the Postal Service as having an autocratic management style. And that particular report recognized the problems that existed in the labor management relations on the workroom floor level. We had a variety of recommendations in that particular report that addressed specifically some of the concerns that you mentioned about supervisors and how those supervisors might interact with workers on the workroom floor.

The Postal Service has generated a variety of initiatives to try and address those problems. But as I highlighted in the testimony, a lot of times the Postal Service and its unions and management associations are not able to agree on how to go forward with some of these initiatives, and this is why I indicated that GPRA has been an avenue for these people to come a little bit closer together and agree on the goals that they would like to achieve in the long term.

We are currently looking at the initiatives, and at the request of the chairman, relooking at those and trying to make a determination of whether or not they have been effective in some degree in trying to help.

Mr. LATOURETTE. That answers my question. Thank you, Mr. Motley, and thank you, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman.

Mr. Davis.

Just for the edification of the audience as well as the Members, the committee rules provide that Members are recognized in the order of the appearance of the time the gavel came down and then by seniority.

Mr. DAVIS. Thank you very much, Mr. Chairman.

Mr. Motley, you indicated in your testimony that there were some areas of weakness in terms of internal controls that you found.

Mr. MOTLEY. Yes.

Mr. DAVIS. Then you indicated that afterwards there had been some movement toward correction. Did you find this to be significant or do you think that it will actually move in a serious way to correct the problem?

Mr. MOTLEY. Mr. Davis, I believe that the actions taken by the Postal Service in most of the cases that we looked at, especially, let me particularly address EMCA and the bulk mail services, I think they're fairly significant actions that they've taken. I think they've tried to recognize very fully the concerns on the Express Mail corporate account level. The concern we expressed in our report was about the Postal Service being able to identify applicants and having some kind of verification of their addresses when they apply for Express Mail corporate accounts. They have taken action to raise the limits for opening a corporate account as well as the amount that's required to be maintained in the balance of the corporate account. And they've taken some additional actions and sent out directives to the various locations throughout the United States for Postal employees to pay more attention to these things.

If I were to suggest an area that maybe needs some additional attention, as we suggested in our report, one of the big problem areas is in accepting express mail in the mail processing facilities where there was no way or sometimes very little time to process the corporate account information. The Postal Service has indicated that they plan to put some terminals in place, but we have no guidance as to what kind of timeframe might exist but it appears to us they are trying to make some headway in that area.

Very similarly, in the bulk mail area they are instituting additional training as well as taking other efforts to ensure that the kind of problems that we identified are caught early on. I think this becomes even more important now that reclassification is pret-

ty much in full swing because more and more businesses will be using the opportunity to use bar codes and things of that sort that the Postal Service will be required to check at those bulk mail facilities.

Mr. DAVIS. You also indicated that there was a significant amount of difference between overnight delivery and 2- or 3-day.

Mr. MOTLEY. Yes, sir.

Mr. DAVIS. That overnight, 91 percent; 2-, 3-day, 80 to 83.

Mr. MOTLEY. Yes, sir.

Mr. DAVIS. Is the 80 to 83 representing cause for concern or is it just a difference between the two?

Mr. MOTLEY. I think in an organization that is tending to pride itself as a premiere organization in delivering the mail, those things are important not only from the Postal Service's perspective but the mailer's perspective as they put that mail into the mail stream.

The concentration by the Postal Service over the last several years has been on overnight delivery. They've done a good job of improving those statistics, and I believe it's significant now that they turn their attention to some of these other areas.

Mr. DAVIS. Oh, OK. But we are not suggesting that we are in some serious difficulty there because of the lower rate in productivity?

Mr. MOTLEY. I wouldn't suggest that it is a serious difficulty, but I believe it's an area that the Postal Service has to give attention to.

Mr. DAVIS. Certainly something to look at and be concerned about?

Mr. MOTLEY. Yes, sir.

Mr. DAVIS. You also mentioned about possibly looking at the Board of Governors in terms of the way in which they operate. Oftentimes, I know that when we review, we do so with something in mind. Sometimes we review for the sake of knowing, but we also review with an idea in mind or something specifically that we might be looking for.

Are we looking specifically at or for something in this instance?

Mr. MOTLEY. I think really what we are looking for here, Mr. Davis, is whether or not there are opportunities for improvement; whether or not there are opportunities in comparison to other federally charged agencies that have similar organizational structures as the Postal Service with board of directors involved as to whether or not there is some particular thing that might draw us to the requirement or need for legislative change or something that might make the operations of the Postal Service more efficient or effective. And I think that's really what we are looking for in those things.

We didn't have a particular goal in mind in terms of if it's wrong or right but we wanted to see if there were opportunities for something better. And we got through talking to all the Board of Governors, as well as many of those that have been in that position before the current ones.

Mr. DAVIS. When you are reviewing agencies, do you also look at things that may not be specifically outlined, just in terms of what

might be overall goals and directions of the Nation—like affirmative action and how performance might be with those agencies?

Mr. MOTLEY. We look at a variety of those things, yes, sir, Mr. Davis.

Mr. DAVIS. Did you observe anything with the Postal Service?

Mr. MOTLEY. We haven't specifically honed in on that. I meant to infer that the charge that the Congress provides us either through the chairman or ranking minority members or other interested parties here on Capitol Hill, we look into almost any individual issues in agency activities and operations. We have not looked specifically at the kind of issue that you might be addressing here.

Mr. DAVIS. Thank you very much, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman. Mr. Owens.

Mr. OWENS. Thank you, Mr. Chairman.

I think I heard you say that \$1.5 billion was the net revenue?

Mr. MOTLEY. I believe it was \$1.6 billion.

Mr. OWENS. \$1.6 billion was the net revenue. What was the gross revenue?

Mr. MOTLEY. Fifty-six billion. Keep in mind, Mr. Owens, that the Postal Service is intended to be a break-even organization, and a lot of times generally what happens is it is sort of cyclical. The first year or so after a rate increase you will see a fairly substantial profit. The next year, you generally see something along the lines of break even.

Mr. OWENS. No, I am going in a different direction. You spoke about the important oversight responsibilities of Congress.

Mr. MOTLEY. Yes, sir.

Mr. OWENS. The oversight responsibilities of Congress boil down mainly to this subcommittee. We once had a whole committee that was responsible for the oversight of the post office.

Do you think, as things go, the ratio of congressional oversight to the large size of this agency and the importance of it is a proper one? Should we have a subcommittee really as the main oversight body or should we not have a major committee, considering the size of the agency's budget, the size of the operation and the importance of it to every American citizen?

Are we—the question is, you know, in the scheme of things do we have appropriate, effective oversight capacity?

Mr. MOTLEY. Well, that's a question I don't know that I'm in a position to answer directly about whether or not there should be a full committee or just a subcommittee. I would contend, Mr. Owens, that this subcommittee has done a tremendous job in the last several years charged with the responsibilities it has.

Mr. OWENS. We have an extraordinarily hard working chairman, and I take off my hat to him. But the amount of staff he has and the budget he has is far different from the committee that once had oversight for the postal services and I wondered if you had any—

Mr. MOTLEY. No particular thought. I really believe that is a policy decision for the Congress to make.

Mr. OWENS. Regular delivery is lagging behind overnight because overnight is competing with the private sector and they put a lot of emphasis on that.

Did you do audits of Price Waterhouse or did you accept their figures and are you quoting their figures?



Mr. MOTLEY. We accepted the Price Waterhouse figures, Mr. Owens, that are published by the Postal Service. And this overnight delivery is the overnight residential 1-day delivery First Class Mail, which is your 32 cent mail.

Mr. OWENS. Do you think that the Price Waterhouse auditing mechanism is an appropriate one? Should we have several different auditing firms or should we change auditing firms every year? It is a contract that has gone on for some time now. Would you comment on that?

Mr. MOTLEY. We have not really looked at the Price Waterhouse contract.

Mr. OWENS. It is a situation where the same contractor has the contract to evaluate the same organization over a long time. Is that a sound way, a GAO way of looking at things?

Mr. MOTLEY. I think a lot is determined by how the contract awards are made. And I do not know if this is a sole source or competitive contract. But I think it would make a significant difference as to how this was put out on the street. And we have not looked at that.

Mr. OWENS. If it is competitive, it is all right to have it be the same one for 10 years?

Mr. MOTLEY. I wouldn't suggest that if it is sole source it would be OK.

Mr. OWENS. On principle, the fact that you are paying for service from one entity doesn't set up a situation for conflicts of interest?

Mr. MOTLEY. I don't believe so. I think those things are within the bounds of the contracting regulations that the Postal Service operates under.

Mr. OWENS. On labor management, did you look at racial discrimination and its impact on the situation at all?

Mr. MOTLEY. We didn't.

Mr. OWENS. You didn't look at any of the grievances bought by black groups and Hispanic groups and that phenomenon?

Mr. MOTLEY. We haven't.

Mr. OWENS. There are several suits, as I understand.

Mr. MOTLEY. We have not.

Mr. OWENS. Why did you not?

Mr. MOTLEY. What we have been concentrating our efforts on in the labor management area are the initiatives that have been started by the Postal Service, and the actions that have been taken under those initiatives by the various postal unions as well as its management associations, so we have looked at it from a very topical point of the initiatives themselves and what has taken place in the agreements that they've reached under those initiatives and whether or not we believe, as well—based on talking to the union officials and Postal Service officials, whether or not there has been progress in that area.

Mr. OWENS. Did you compare their due process procedures with other agencies of comparable size?

Mr. MOTLEY. If you're referring to the arbitration process, it is a fairly common one throughout the Government.

Mr. OWENS. When an individual has a grievance and the process it goes through; it is comparable?

Mr. MOTLEY. It is very similar to most agencies.

Mr. OWENS. Is it as good as the Army's?

Mr. MOTLEY. I'm not familiar with the Army's.

Mr. OWENS. Did you look at the training at all? This is a huge organization, large budget, large numbers of moving parts and large number of employees, large amount of investment in state-of-the-art technology. What are the training procedures? Did you look at the training procedures for employees? Sensitivity training in terms of labor management or any training procedures?

Mr. MOTLEY. We have looked at some of the training procedures as it relates to some of the specific initiatives that they have under way, but we have not looked at their entire training activities.

Mr. OWENS. I asked this question 2 years ago of I think the Postmaster General. You didn't see any films, any videos, any web sites or classes that are regularly run as a system for training? You didn't notice—

Mr. MOTLEY. I'm aware, not very heavily aware, I am aware that the Postal Service has an extensive training program, and that they do use videos and things of that sort.

Mr. OWENS. I have been trying to get a copy for 2 years of some training films.

Mr. MOTLEY. Well, I am sure if they are available Mr. Runyon will make them available to you. If you need our assistance in doing that, we will be happy to help you.

Mr. OWENS. I have one video that deals with "This is your post office," a nice film, you know, for introducing children to the post office, or adults. But it is not a system of training that an organization of that size you would expect would have.

So personnel development and training for personnel you didn't see figured into that whole labor management problem?

Mr. MOTLEY. I actually think that is a part of the whole labor management process, Mr. Owens. What I am suggesting is that we didn't look at that whole process in the work that we have done to date.

Mr. OWENS. Thank you.

Mr. MOTLEY. Yes, sir.

Mr. MCHUGH. I just want to make sure I got this straight. More budget and more staff, and I would be a full committee Chair? We should talk.

Mr. OWENS. Are we both New Yorkers?

Mr. MCHUGH. We may have to strike that.

Mr. Gilman.

Mr. GILMAN. Mr. Chairman, I regret that I had to be at another meeting earlier, and I commend you for continuing these series of oversight on the Postal Service. I welcome listening a little more about the proposal to centralized uniform purchasing procedures. I strongly support the Postal Service's attempt to have cost efficiency; however, it is important that the Postal Service provide adequate protection to guard against adversely affecting our U.S. garment industry as well as to prevent the utilization of sweatshops in this process.

And I look forward to hearing the testimony of Postmaster General Runyon concerning the issues he is confronted with and providing service and cost efficiency. But let me ask a question of our GAO. Some economists specializing in postal issues have raised

doubts whether the Postal Service can remain viable in its current form. Would you care to comment on that?

Mr. MOTLEY. Well, that probably is an understandable concern that they might have, Mr. Gilman. The Postal Service has been threatened by competitors for an awfully long time now, and something that I won't say is new on the scene but in the last 10 years or so, the telecommunications market has started to cut into the Postal Service quite extensively. I think Mr. Runyon in leading the Postal Service has recognized this and attempted in a variety of ways to create a better service and to try and see how he might be able to stem some of the concerns that exist there.

I believe in the future, as communications through the computer and as households start to afford these more and more, you'll see some of the mail stream such as First Class, which is a very large revenue generator for the Postal Service, start to change significantly. I know that this is one of the reasons that the chairman has expressed concern and proposed H.R. 22 as a reform measure—beginning of the reform measures for the Postal Service.

Mr. GILMAN. In your testimony, you mentioned how the Postal Service goes about closing post offices. Coming from a district that I have that includes many small, rural services and substations, I wonder if you can comment on how such closings affect service in the more rural areas.

Mr. MOTLEY. We have not directly looked at those closings and the rural areas in the services that were provided. However, the process that the Postal Service is supposed to follow is that when services are either terminated as a result of the close of a facility or the emergency suspension of operations, they are supposed to provide alternate services and notify those customers.

Mr. GILMAN. And have you tried to do some oversight on whether that is being done?

Mr. MOTLEY. At this point, Mr. Gilman, we've just looked at the process related to both the closing and the emergency suspensions. We have not looked at the details of what actually happens.

Mr. GILMAN. I would hope at some future date you undertake an overview of that process to make sure that we are not deteriorating the service in the rural areas. Thank you.

Thank you, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman. Now we are pleased to turn to the esteemed ranking member, Mr. Fattah.

Mr. FATTAH. Thank you, Mr. Chairman. I am going to be brief so that we can move on, but there are a couple of things.

One is that I do want to underline something that I agree with in your testimony on page 10, where you said that one of the most important areas for oversight is labor management relations.

Mr. MOTLEY. Yes, sir.

Mr. FATTAH. And you thought that congressional oversight was very important in that area and you talked about its drag on productivity to the degree that some of these longstanding grievances are not resolved. But you point to the Government Performance and Results Act later on in your testimony as perhaps a vehicle or the context under which you know some of these issues might get handled.

I am not—I understand the thrust of your comments, but you are aware that, at least as to active, structure labor organizations are not indicated as being stakeholders even though from a commonsensical viewpoint we would think of them in the Postal Service context as major stakeholders.

Mr. MOTLEY. Mr. Fattah, we might differ in that view somewhat. My feeling, as GPRA was structured, my sense is that the agency is supposed to coordinate with its stakeholders. And in consultations with the Congress as well. And I would view both the unions, the management associations, major mailers, as stakeholders in the direction that the Postal Service might go.

Mr. FATTAH. Well, I don't think we would disagree. I would agree. I don't think the act is as specific as identifying labor organizations as one of the stakeholders, even though, as I said from a commonsensical point of view one would hope that they would be, but I just wanted to make that point.

I understand all of your testimony. I want to see if you can help the committee to understand why you think the Postal Service has been so financially successful under the Postmaster General's and the management team's work there.

Mr. MOTLEY. Well, I think there are a variety of things that point to the success of the Postal Service financially. Some of those can be attributable to a long-term automation program that was put in effect many, many years ago that I think you are starting to see. You are starting to see some changes over time.

I think there are some efficiencies that the Postal Service has tried to make I think in some markets that are substantial revenue generators for the Postal Service. You have seen increased emphasis, and as a result, you have seen a fairly substantial increase in the volume in those mail categories.

For example, Priority Mail. Priority Mail is a fairly strong revenue generator, even though it is a small piece of the large revenue pie that the Postal Service has. But there has been a long-term emphasis in that area, and, as a result, the Postal Service has done fairly well.

Express Mail is another area, again small. Where you have seen additional revenue generation is at the First Class Mail level where the rate of growth has not been substantial in the past years, but there is still some growth in that First Class Mail category.

Mr. FATTAH. In your testimony you talk about First Class for a minute. You talk about the high rate of performance there, but you said that some customers were concerned that perhaps in the 2- to 3-day mail that we were at about an 80—80-something performance rate there.

Mr. MOTLEY. Yes, sir.

Mr. FATTAH. Maybe there was some prioritization in which First Class, was, you know, a management priority to the detriment of these other categories. May have to set some priorities.

Mr. MOTLEY. Yes, sir, I agree.

Mr. FATTAH. So I wasn't clear from your comment whether you were just acknowledging that some customers may have made that complaint or whether the GAO was saying that if that was a prioritization, that it was inappropriate.

Mr. MOTLEY. No, sir, I was not inferring it was an inappropriate one. We don't have evidence to suggest that there was emphasis on First Class to provide some detriment to the Second and Third Day Mail. It's just that customers have expressed that concern.

Mr. FATTAH. I understand. But let me say this, that I am sure there have been a lot of complaints. At least my office has gotten all kinds of complaints about the Postal Service. I mentioned that one in your report and so that is what drew me to it as if you were suggesting that either it was accurate or if it was accurate, that it was inappropriate. And I haven't been able to elicit from you a judgment yet. If, in fact, that was the case, would that be inappropriate?

Mr. MOTLEY. I would—I would fail to—I would be failing in the audit work that we have done to suggest that it was inappropriate, Mr. Fattah. I would suggest that if the Postal Service intends to be the First Class organization that it would like to be that it needs to put the kind of emphasis on 2- and 3-day mail it has put on the First Class 1-day mail.

Mr. FATTAH. This is my last, Mr. Chairman, last question. You refer to the Canadian circumstance and the reforms that have taken place. And you also talk about the fact that even though they have maintained uniform postal rates for the, I guess for what would be comparable for First Class delivery to residents, that they have scaled back the frequency of delivery and they have also closed down many of their postal outlets in rural areas.

Could you speak any more specifically to what they have done, especially in terms of this issue of reduction of delivery, that they moved from a daily delivery to something—

Mr. MOTLEY. Let me give you an example, in some of the business deliveries in the Canadian postal system they were delivering as many as five or six times a day, and what they have done is cut that back to generally fewer times, sometimes just one time a day. And so, from a cutback from that standpoint, they have been able to save additional funds.

With regard to the rural closings in many instances, one of the approaches the Canadian Post has used is contract post offices. That is, they have contracted these out to the private sector to ensure that they continue to fulfill their universal service mandate. Maybe Ms. Anderson would like to add some more to that.

Ms. ANDERSON. About the concern on the closings of rural post offices, as we understand it, the Canadian Post imposed a moratorium on any further closings in rural areas.

Mr. FATTAH. That is, the Canadian Government imposed the moratorium, but the CPC would have proceeded forward absent the moratorium.

Ms. ANDERSON. That's correct.

Mr. FATTAH. I thank the chairman.

Mr. MCHUGH. I thank the gentleman.

There are many other questions that deserve our attention at this hearing, but we do have the Postmaster General very patiently waiting and I would like to move along to him.

As you have so graciously done in the past, I would ask that you please assist us again by responding in writing to questions that both I and the other members of the subcommittee will submit in

writing, so those answers will be on the record. We look forward to working with you.

As you note in your testimony, you do have a number of studies under way dealing with the authorities of the Postal Board of Governors, for example, and others. So as much as we have enjoyed our relationship in the past, we are looking forward to an even more productive one in the future. Thank you again for being here.

Mr. MOTLEY. Thank you, Mr. Chairman. Appreciate it.

[Followup questions and responses follow:]



United States  
General Accounting Office  
Washington, D.C. 20548

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General Government Division

May 30, 1997

The Honorable John M. McHugh  
Chairman, Subcommittee on the  
Postal Service  
Committee on Government Reform  
and Oversight  
House of Representatives

Dear Mr. Chairman:

Enclosed are our responses to the questions you sent us in the letter dated May 8, 1997, following our testimony at the Subcommittee's April 24, 1997 hearing.

If you have any questions regarding our responses, please call me at (202) 512-8126.

Sincerely yours,

A handwritten signature in black ink that reads "Michael E. Motley". The signature is written in a cursive, flowing style.

Michael E. Motley  
Associate Director, Government Business  
Operations Issues

Enclosure

**GAO RESPONSES TO QUESTIONS OF MAY 8, 1997,**  
**FROM THE CHAIRMAN, SUBCOMMITTEE ON THE POSTAL SERVICE,**  
**HOUSE COMMITTEE ON REFORM AND OVERSIGHT,**  
**RELATING TO THE APRIL 24, 1997, HEARING**

**QUESTION 1**

As a supplement to your post office briefing report last month, you provided the Subcommittee information on emergency suspensions of operations at post offices. What do you believe are some of the issues relating to emergency suspensions that require attention by either the Postal Service or the Congress? For example, did you perceive that the Postal Service needs to give greater attention to emergency suspensions, and likewise, did you find that this is an area requiring either stricter oversight or legislative recommendations?

**GAO RESPONSE**

We believe that one issue relating to the emergency suspension of post offices requires the attention of the Postal Service. The Service should ascertain the status of post offices that have been suspended for more than 6 months. Postal regulations require that within 6 months, local postal officials either reopen a suspended post office or initiate action to officially close the post office. Our work identified a number of post offices that had been suspended for periods longer than 6 months—over 100 had been suspended for more than 5 years, and 23 had been suspended for more than 10 years. When obtaining agency comments on our letter of correspondence about post office suspensions, Postal officials agreed that this is a problem, and they stated that they have recently started to follow-up on post offices that have been suspended for long periods of time.

An issue related to emergency suspensions that may need greater oversight by Congress is whether post offices, that were suspended for legitimate reasons and subsequently closed by the Service, had sufficient justification for being closed or whether they should have been reopened? We know that most post offices that were suspended were also eventually officially closed. The scope of our work did not permit us to determine whether these closures were for legitimate reasons; however, additional oversight may be needed as to whether most post offices that are suspended because of emergencies or other unavoidable reasons and that end up being officially closed had sufficiently justifiable reasons for being permanently closed.



**QUESTION 2**

I know that you have been monitoring the Postal Service's progress in complying with the GPRA requirements. Please expand upon some of your concerns in this area, specifically related to where you may believe the Postal Service's efforts to date may be falling short of the expectations and intent of the Act?

**GAO RESPONSE**

Our primary concern regarding the Postal Service's compliance with GPRA is the development of a meaningful detailed strategic plan that can be used to facilitate communication among the Service and its stakeholders to clarify priorities and reach consensus on achieving shared goals. Such a plan should contain (1) results-oriented goals; (2) a strategy for how the Service intends to reach its goals; (3) key external and internal factors that may affect the Postal Service's ability to achieve its goals; (4) performance measurements that will be used to measure performance towards achieving goals; and (5) indications of how key agency activities link to the desired goals and results and how annual performance goals link to the overall strategic goals. The strategic plan is due to the Congress by September 30, 1997, and as of the end of May 1997, we were not aware of a draft strategic plan which could be shared with stakeholders. We are also concerned that the Postal Service will not have sufficient time before the plan is due to Congress to obtain meaningful comments from interested stakeholders or develop a consensus on key goals and strategies for reaching those goals.

**QUESTION 3**

In response to the GAO's report and recommendations on the growing revenue losses from Express Mail Corporate Accounts, the USPS raised the minimum balance requirements from \$50 to \$250 to maintain an account. We understand from the Postal Service that this has caused some consternation among some customers. GAO did not recommend a specific dollar amount or that this be raised, but rather suggested that the Postal Service could require individuals to present a valid major credit card and appropriate identification to open an account. Thus, if customers overdrew or used a closed account, the Service could locate and collect postage from those customers. Did you get a sense why it doesn't require applicants to have a major credit card to qualify for an account, in the same way that some of the Service's competitors (FedEx and UPS) offer corporate accounts only to customers who meet this condition? The Postal Service can accept credit cards; is there some kind of operational problem related to handling credit card charges?

**GAO RESPONSE**

As of April 25, 1997, in response to customer concerns, the Postal Service retained its initial deposit requirement of \$250, but lowered its minimum balance requirements on Express Mail Corporate Accounts from \$250 to \$100, or one week's worth of average postage, whichever is higher. The Postal Service also announced several options for purchasing Express Mail including:

- using a postage meter,
- ordering with a credit card by phone, and
- using cash, credit card, or personal check at any post office.

According to the Postal Service, it discontinued allowing business customers to use credit cards to pay for bulk mail shipments charged to corporate accounts because of the high transaction costs that the Service incurred. Instead, the Service is currently piloting the use of a centralized automated payment system (CAPS) which is designed to make payment for all classes of mail easier and more cost-effective. Under CAPS, two payment options are available (1) a centralized trust account where funds are deposited electronically to the CAPS bank prior to mailing and (2) a centralized debt account where designated bank accounts will be debited for the day's total mailings on the next business day.

**QUESTION 4**

For the past several years the General Accounting Office has maintained an office within USPS headquarters at L'Enfant Plaza. Last year it moved those employees back to the GAO offices. Can you share with the Subcommittee the reasons that you believe were considered by the GAO in ceasing its presence at L'Enfant Plaza and closing the GAO onsite office? Do you feel that this decision will, in any way, reduce the level of oversight your office will be able to provide?

**GAO RESPONSE**

As the Subcommittee may be aware, GAO has experienced a significant reduction in staffing levels since 1992 as a result of budget reductions. These reductions have caused us to reduce our staffing levels by about 35 percent since that time and eliminate some overhead costs that were incurred by having staff at audit sites. To obtain these cost savings, GAO has moved most of its headquarters staff into the main GAO headquarters building during the past year. However, I do not believe that our decision to close the audit site at L'Enfant Plaza will affect our ability to continue to oversee the operations of the Postal Service.

**QUESTION 5**

1996 mail volume grew, but, only at half the anticipated rate. With the 1997 accounting periods available, have you been able to determine if this slower growth is continuing and, if so, should the USPS re-evaluate its mail volume projections?

**GAO RESPONSE**

According to the Postal Service financial statements through accounting period seven, that is, the end of March 1997, overall mail volume for all mail had increased for the year to date at a modest rate of 3.3 percent. Priority mail had the largest year-to-date volume increase of approximately 15 percent, while international mail had the largest year-to-date volume decrease of about 11 percent. In addition, First-Class volumes had increased for the year to date at about 1 percent, while Standard A (formerly third class) and Standard B (formerly fourth class) mail year-to-date volumes increased by 6.6 percent and 5 percent respectively. The Postal Service had projected fiscal year 1997 volume increases for First-Class Mail of about 2.5 percent, Standard A mail by 4.9 percent, Standard B mail by 8.6 percent, and Priority mail by 6.3 percent.

**QUESTION 6**

In your discussions of the proposals to address the revenue being lost in the express mail area, you say that the Postal Service "plans" to install terminals in mail processing plants that will allow express mail accounts to be verified before they are accepted into the mail stream. Were you given any indication about the time frame for the installation of these terminals?

**GAO RESPONSE**

As of May 1997, the Postal Service had no definite plan for installing terminals in mail processing plants.

**QUESTION 7**

Based on data from monitoring the Postal Service, what impact, do you believe, would reducing the scope of the postal monopoly to letter mail of \$2 or less have on the Postal Service's mandate to provide affordable universal service?

**GAO RESPONSE**

Based on available data, it appears that the short-range impact of reducing the scope of the letter mail monopoly to \$2 would not significantly affect the Postal Service's ability to provide affordable universal service because little of the First-Class mail volumes that are currently protected by the postal monopoly would become subject to competition. As

we stated in our report entitled, Postal Service Reform: Issues Relevant to Changing Restrictions on Private Letter Delivery, (GAO/GGD-96-129A), First-Class mail volume is critical to the Service's overall revenue and its ability to cover operating costs. However, available data indicate that less than 3 percent of the First-Class mail revenues are currently derived from First-Class mail that falls outside the proposed reduced limit of \$2. In addition, there are a variety of other factors, such as a reduction in First-Class mail volume due to increased use of electronic media, along with costs, inflation, and service quality that could in the long run, in combination with the change in the scope of the postal monopoly, have an impact on the Postal Service's ability to provide affordable universal service.

#### **QUESTION 8**

Based on your analysis of postal finances and trends, do you feel that a request for an omnibus rate increase is warranted?

#### **GAO RESPONSE**

We do not have sufficient data to make such a determination.

#### **QUESTION 9**

The Postmaster General has said that GAO has given the Postal Service a "clean bill of health" with regard to GAO's recommendations regarding the Postal Service's ethics program, procurement practices and revenue assurance initiatives. Is this an accurate assessment?

#### **GAO RESPONSE**

This is not an accurate assessment. In our January 1996 report we stated that the Office of Government Ethics was reviewing the Postal Service's ethics program and found that all areas of the program required improvement. The Office of Government Ethics subsequently made a number of recommendations designed to ensure that improvement of the Service's ethics program continues through more consistent oversight and management support. Based on actions taken by the Postal Service to address these recommendation, the Office of Government Ethics closed its recommendations. However, as we stated in our report on this issue, the problems that we found were due in part, not to the lack of internal controls, but to the negligence of agency officials in following the procedures. Thus, it is important to continuously monitor the agency's implementation of their ethics and procurement practices to ensure that agency procedures are being followed as intended.

**QUESTION 10**

Please describe the necessary steps the Postal Service must take in complying with the Government Performance and Results Act (GPRA). Do you think GPRA can provide the needed stimulus in resolving the long standing labor and management relations problem in the Postal Service?

**GAO RESPONSE**

GPRA requires the Postal Service to establish strategic goals, measure performance, and report on results. Specifically, the Act requires the Service to develop by September 30, 1997, a 5-year strategic plan that includes a clear and concise mission statement based on statute, identify its results-oriented goals, and describe how the Service intends to achieve its goals. The Act also requires that the Postal Service obtain and consider the input of those affected by or interested in postal issues.

The GPRA consultation process provides the major postal stakeholders and Congress with opportunities to better understand the Service's mission, proposed goals, and most importantly, the strategies used in attaining these goals, including those that relate to the long-standing labor-management relations problems that challenge the Service. Our ongoing work related to the progress on addressing labor-management problems identified in our previous reports, U.S. Postal Service: Labor-Management Problems Persist on the Workroom Floor (GAO/GGD-94-201A&B), suggests that postal labor and management officials have not yet reached an agreement on how to address these long-standing problems. Given these challenges, GPRA provides a forum for all key postal stakeholders to participate in developing and reaching consensus on strategies for attaining results-oriented goals. Without such an agreement, it will be difficult for the Postal Service to effectively meet these goals.

**QUESTION 11**

Based on your recent Report regarding post office closures, does GAO consider the appeal process to the Postal Rate Commission (PRC) to be an adequate safeguard for customer concerns?

**GAP RESPONSE**

The 1976 amendments to the Postal Reorganization Act of 1970 state that before closing a post office, the Service must (1) consider the effects on the community served, the postal employees affected by the closure, and the government policy to provide effective and regular postal services to all areas of the country, as well as any economic savings to the Service resulting from the closure, and (2) provide customers with adequate notice before the closure and a written proposal to close and the findings that led to the closure.

decision. We believe that the appeals process is an adequate safeguard that these requirements of the Service are met. However, our work did not address whether the appeals process and the Postal Service's actions adequately address the specific concerns that individual customers may have when they forward their appeals. Customers can, and indications are that many do, remain very concerned about the closure of their post office. As pointed out to us by officials of the Postal Rate Commission (PRC), by law PRC is restricted in the appeals process to the administrative record made by the Service, and cannot conduct its own fact-finding investigation or hearing.

#### **QUESTION 12**

Would you distinguish the difference between a closure, and a suspension? One way, according to your report, must be the appeals process. Is this process sufficient to guard unwarranted degradation of postal services?

#### **GAO RESPONSE**

A post office closure is when the Service permanently discontinues operations of an independent post office, eliminates the postmaster position, and provides affected customers with alternative postal services, such as a rural route. On the other hand, a post office suspension is when the Service temporarily discontinues operations of an independent post office because of emergency or other conditions, such as a natural disaster or a lease termination. While operations are suspended, the Service is to provide alternative postal services to affected customers. Within 6 months of a suspension, the post office should either be reopened or the process for permanently closing the post office should be initiated.

Another distinguishing feature between a post office closure and a post office suspension is the appeals process. Affected customers may appeal a Service decision to close a post office, whereas a decision to suspend operations at a post office cannot be appealed. We have not done the necessary audit work to determine whether the appeals process is sufficient to guard against unwarranted degradation of postal services for post offices that are closed. The appeals process has no effect as a safeguard against degradation of postal services in relation to post offices that are suspended.

#### **QUESTION 13**

During the course of preparing your 1996 report on International Mail did you find any evidence that the Postal Service is pricing its international services below cost?

**GAO RESPONSE**

The Postal Service maintains that although some of its international services have lower markups than some domestic services, international services as a whole cover their direct costs and contribute to overhead costs, as required by law. Our review of the Service's costs and revenue data for fiscal years 1990 to 1994 supports the Service's assertion. We found that international mail as a whole covered its attributable costs and contributed to overhead costs during each of those 5 years. However, international surface mail did not recover its attributable costs in 1991 and 1992, and international surface letters and cards as well as surface parcel did not recover their attributable costs in 1990. A Postal Service official contends that the Service is not in violation of the 1970 Act because international surface mail, international surface letters and cards, and international surface parcel post are not considered to be classes of mail. We also noted that both international mail's contribution to overhead costs and cost coverage increased every year from 1992 to 1994.

**QUESTION 14**

Your 1996 report regarding the Private Express Statutes provides a range of estimates of the effects of relaxing the Statutes on the revenue, cost and rate of the Postal Service. What factors should be considered if the Statutes were to be changed?

**GAO RESPONSE**

We believe that several key factors need to be considered in the deliberations on proposed legislative changes including what mail volume the Postal Service might lose, how competitors would respond, whether the Service could improve service quality and control operating costs, whether the Service could meet its public service obligations if increased competition were permitted, and what would be the possible consequences for all stakeholders, including the Service, the American public, and the Service's competitors?

Mr. McHUGH. With that, we can immediately start our second panel. Before our two gentlemen are seated, let me administer the oath.

[Witnesses sworn.]

Mr. McHUGH. The record will show that both gentlemen responded to the oath in the affirmative.

Gentlemen, welcome. I noted in my opening statement, at least financially, you have had a very successful year. You heard a question earlier as to how the recent success of the Postal Service has come about, and I suppose there are many answers to it. Certainly, the workers who have done an absolutely incredible job through some less than ideal weather conditions, particularly as of late, and meeting those proverbial appointed rounds.

But as I noted as well, a good share of that credit has to fall upon the management and the efforts that you have made. So, as the two top representatives of that management part of the team, we thank you and we welcome you here today and we look forward to your testimony. Postmaster General Runyon I welcome you again and say that our attention is yours, sir.

**STATEMENT OF MARVIN T. RUNYON, POSTMASTER GENERAL,  
AND CEO, U.S. POSTAL SERVICE, ACCOMPANIED BY MI-  
CHAEL COUGHLIN, DEPUTY POSTMASTER GENERAL, U.S.  
POSTAL SERVICE**

Mr. RUNYON. Thank you, Mr. Chairman.

With me today is Deputy Postmaster General Mike Coughlin, and in the interest of time I would like to summarize the testimony that you received and ask that the full testimony be received into the record.

Mr. McHUGH. Without objection, so ordered.

Mr. RUNYON. I am pleased to report to the committee that the state of the Postal Service is very good. Financially, we expect to turn a third consecutive year profit. Our volume continues to climb, although behind what we had hoped. We had rather feeble growth in First Class Mail and that is of particular concern to us. We think it is a sign of the growing challenge that we face from rapidly developing communication technologies. We also face key challenges to raise our 2- and 3-day First-Class service scores and to improve labor management relations.

Customer satisfaction and customer support remain extremely strong. We are making steady progress implementing Customer Perfect!, our effort to bring the Baldrige principles of management to the Postal Service. We are integrating the new Office of the Inspector General into the organization. We continue to work closely with major customer segments getting their input and their perspective. That is especially true when it comes to legislative reform.

Legislatively there are four key pillars that we think are necessary: Any bill must preserve universal service; the second, it must provide practical incentives to control costs; third, it must support products that meet changing customer and marketplace needs; and, last, it must modernize the ratemaking process.

For the immediate future, we're working closely with the Governors examining the revenue needs and the rate structure for next year and beyond. During his appearance last month, Chairman del



Junco indicated the Governors would likely have a decision within 60 to 90 days, and I believe the board will hold to that schedule.

Mr. Chairman, that's a quick snapshot of the Postal Service today, and I would like to ask, as I say, the full testimony to be entered into the record.

Also, Mr. Chairman, I would like to ask your permission to make another comment at this time. You asked a question of the Governors when they were here if they cared to say anything about the Coke matter that is under investigation by the Department of Justice. I would like to respond to that question at this time, if I could.

Mr. MCHUGH. Please do, yes, sir.

Mr. RUNYON. I'd like to give you the facts as they relate to myself in this matter.

In 1977, I invested less than \$13,000 in Coca-Cola stock. In 12 years later, I went to the Tennessee Valley Authority. That stock was placed in a blind trust. When I left there in 1992, it was still in a blind trust.

In December 1992—in December 1993, I met with my financial advisor. Each time he told me that he thought that I should get out of that blind trust if possible because the returns on the blind trust were not meeting market value. I talked to my—in 1994, I talked to my general counsel and ethics advisor and asked them if it was necessary as a Postmaster General to have a blind trust. I was told that that was not customary and wasn't necessary, at which time they helped me with the Office of Government Ethics to remove myself from that blind trust, which I did.

At that time I was assured that if there were going to be conflicts they would inform me of it. Later, the alliance with Coke was originated by our marketing department. I did not ask that that be done. I didn't think of that idea. It was something the marketing department had. I attended a few of those meetings.

After one of those meetings, a lawyer from the general counsel's office in her behalf came to me and said that I should recuse my Coke stock—recuse myself from dealing in the Coke matter because I owned Coke stock and I might consider divesting myself. I recused myself immediately; never entered any other discussions with the Coca-Cola matter.

I immediately asked my general counsel to assist me with the Office of Government Ethics to divest myself of the Coke stock. I got the permission to divest myself of that Coke stock, and at that time, when I got it, I immediately divested myself.

So, I did both things that were recommended both to recuse myself and divest the stock. I was told I might ought to do one or the other. I did both. And when I divested myself of that stock, I did not receive any profit as a result of it because the Coke alliance never took place. There was a thought that I would receive money in excess of what the stock was worth because of the alliance between the Postal Service and Coke. That didn't happen. I did not receive any profit.

I have been in public service now for 9 years. I was in private business for 43 years before that and I have never had a question asked about my ethics before. This is really a rather traumatic thing with me. It is something that I would never have expected.

It's not something that I'm really thrilled about. I don't really like to talk about it, but the fact is it's there and it shouldn't be there.

I'm in Government service not to make money. I didn't come here to make money. I came here because I had an opportunity to come. And I feel that if people have an opportunity to provide Government service, they should take it.

I owe a lot to this Government. It has been very good to me for 72 years. It's given me more opportunities than you could imagine. When President Reagan and his Chief of Staff Howard Baker asked me to serve as chairman of the Tennessee Valley Authority, I saw that as an opportunity to do just what I said, and that is to give something back to my country. I did serve during World War II in the service as many of us did. But I think that more is required if you can provide it. I saw that as an opportunity.

I also saw it as an opportunity to give something to my Government, because if we could prove that Government could operate as efficiently as a business, then that would be a big benefit to the Government. We proved that at TVA. And we are doing a pretty good job of doing that at the Postal Service at the present time.

So I saw this as the opportunity to repay a debt that I felt I owed. I think that basically covers everything about the facts.

As you know, the Department of Justice has an ongoing inquiry. It has been ongoing now for 8 months, and will continue for I don't know how long. I'm sure the chairman can appreciate the sensitivity connected with this inquiry. I have nothing to hide, and that's why I'm here today prepared to answer questions if you would have any questions on this matter. I would appreciate, though, the chance, if you ask very detailed questions, to provide detailed answers in writing so that there could be no misinterpretation about what those answers were.

So with that, Mr. Chairman, I would be glad to take any questions, if you have any on that subject, if not, then Mike and I would be glad to talk about the post office.

[The prepared statement of Mr. Runyon follows:]

STATEMENT BY MARVIN RUNYON  
POSTMASTER GENERAL/CHIEF EXECUTIVE OFFICER  
UNITED STATES POSTAL SERVICE

BEFORE THE  
SUBCOMMITTEE ON THE POSTAL SERVICE  
HOUSE OF REPRESENTATIVES  
April 24, 1997

Good afternoon, Mr. Chairman. With me is Deputy Postmaster General Mike Coughlin.  
We are pleased to be here today.

I would like to thank the Subcommittee for its courtesy in rescheduling this hearing.  
I'm pleased to report that the flu has flown. I'm feeling fit and looking forward to helping my fellow postal employees close out another good year with a strong finish.

Earlier today, this Subcommittee heard from the General Accounting Office. And last month, you received reports from the Postal Service's new Inspector General and the Governors of the Postal Service.

I know that the GAO understands the financial and service success the Postal Service has achieved, and the need to continue this progress to preserve universal service in the face of growing competition. They have been an ally in this process.

Their advice and recommendations have helped us improve. Their reports have documented our progress in strengthening our ethics program, improving purchasing practices, and expanding revenue assurance initiatives. Also, the Office of Government Ethics has given us a clean bill of health. I will submit their letter for the record. We regard all these efforts as essential elements of our success. I recognize that they are of great importance to this Subcommittee as well.

The insights of the new Inspector General will add to this effort. She has made substantial headway in establishing her new office, with the support of the Inspection Service and the rest of the Postal Service. I can assure you our support will continue. We look forward to a long and effective relationship that will promote the health and viability of the mail.

In their testimony, the Governors highlighted some of the key performance figures reflecting the hard work and success that postal employees have delivered over the past year. I would like to begin my review by echoing their praise for the dedicated men and women who deliver the nation's mail.

American songwriter Irving Berlin once said, "The toughest thing about success is that you've got to keep on being a success." For the employees of the Postal Service, that was the challenge they faced over the past year. I am pleased to say they delivered.

The heart of our universal mail system is the quality mail service we provide each day to every home and workplace in the nation. Today -- thanks to the conscientious efforts of managers, supervisors, and craft employees -- that heart is beating with greater strength and rhythm than ever before.

We finished Fiscal Year '96 with a record 91 percent of local First-Class Mail delivered overnight. That's four points higher than the record I reported to you last year. And it's a dozen points higher than where we stood less than three years ago.

The progress has continued this year. In quarter 2, which ended February 28, we matched our overnight EXFC record of 91. That beats our previous best winter performance by four points. That's a significant milestone because it comes during the most demanding time of year when mail volumes rise, temperatures plunge, and winter hits hardest. We are on course to achieve a new service record this year. And we are working to raise our two- and three-day scores as well.

The Postal Service also continues to do well financially. In fact, our \$1.6 billion net income last fiscal year nearly matched the record of the previous year. And, unlike other delivery firms who operate in our markets, we didn't have an annual price increase to offset inflation. The beneficiaries are our ratepayers -- every citizen and business, in every state, city, and rural route in America.

We are now in our third year at the same rates, set with an increase two points below the rate of inflation. We're squarely on track to finish in the black for three straight years. Through March 28, a little more than half way through the year, net income is just over \$1.1 billion. That's \$243 million ahead of budget going into the low volume summer months.

I should note, however, that when submitting our budget to the President, we indicated a \$1.8 billion loss for Fiscal Year 1998. We have been working to bring that down and it looks like it will come close to \$1.4 billion. We are now looking to see what we have to do to offset that.

With record service, stable rates, and a sound economy, it's not surprising that mail volumes are up. But the increases themselves are disappointing. Last year mail volume was up only 1.1 percent. So far this year, total mail volume is up 3.3 percent, but our flagship service, First-Class Mail, is up just 1.1 percent.

Clearly, the Postal Service must continue to improve if it is going to maintain its viability in the marketplace. Our long- and short-term plans are designed to continue the momentum we have developed. We are incorporating our strategies with the planning methods of the Government Performance and Results Act of 1993. The resulting five-year strategic plan for the years 1998 through 2002 will be our guidepost into the next century. We are working closely with the Subcommittee in developing the plan and will submit it to you by the end of this fiscal year.

The Postal Service is also taking concerted action now to lay the groundwork for a better future.

First, we're modernizing our mail systems to keep the mail as viable as possible. We are continuing classification reform, expanding process management, and accelerating investments in automation and robotics.

Our plans call for investing a record \$14 billion over the next five years to advance automation and ensure we have the equipment and facilities to provide our customers with better, more consistent service in the years ahead. Last year we committed over \$3 billion and we expect to exceed that amount this year. By the end of 1998, we expect the entire letter mail stream -- or about two-thirds of our total volume -- will be barcoded.

Second, we're adding value to our product lines. For example, we're examining a redesign of our Priority Mail network to deliver an improved combination of speed, price, and reliability. This market can actually benefit from the communications revolution as more people order products from kiosks and home systems. The key is to provide the right mix of features that customers want.

We also see growth opportunities in global markets. We're working with postal administrations around the world to develop the infrastructure and products to make it happen. Just this month we added Brazil, China, Chile, and Saudi Arabia to our expanding Global Priority Mail Network.

In May, I will join representatives of 10 nations at an international postal summit in Tokyo. While there, I will appear before your counterparts in the Japanese parliament. We are building stronger global bridges for our customers. And we are giving American businesses a convenient, cost-effective way to sell their products overseas.

Third, we're continuing our two-centuries-old tradition of innovation. We're testing an array of new services and value-added features for our products and business applications.

We're also looking for appropriate new ways to leverage our 38,000 retail offices. This is especially critical in the thousands of small offices where we now spend several dollars for each dollar of revenue we take in.

Revenue growth and cost control are essential. They are the footing for low prices. They are the foundation for preserving our universal delivery system, that serves every American, six days a week, whether they live in an urban high-rise or on a rural road.

The nation's post offices and the 128 million delivery stops we make every day are the soul of universal service. It's a sacred trust we have with the American people, and we're committed to ensuring that its benefits are bestowed on succeeding generations of Americans.

Some have suggested that the Postal Service should not be concerned with growth. "Just deliver the mail," they say. But growth is what sustains our network.

The fact is, our delivery obligations are going to grow no matter what we do. Between now and the end of the decade, we'll add millions of new addresses to our service network.

Wherever Americans build new homes and businesses, we'll be there offering free delivery service. We better have additional mail to pay for it or we're going to be in trouble. We've got to grow -- right along with the country -- as we have for 221 years.

Meeting that objective has never been more challenging. One reason is that businesses are taking steps to reduce all their costs, which includes cutting back on the mail. An even more disturbing development is the growth of electronic diversion.

For over two hundred years, the Postal Service has adapted to changes in the communications marketplace. Over the years, the Postal Service has prospered in the face of new systems that others predicted would drive us out of business: the telegraph, the telephone, the fax, e-mail.

The rival we face today, however, goes far beyond anything faced before. Computers, telephones, television, and electronic funds transfer are being brought together within a rapidly evolving communications network. This system promises one day to link nearly every home and business in the nation with the capability to rapidly trade messages, money, and multi-media content. And the process has broad support from both the government and business.

Our key concern is that this new system takes dead aim on our most critical market: First-Class Mail. One-fourth of our business -- indeed, the core of our business and the financial bedrock for universal service -- is bills, payments, and statements. We already see substantial diversion of this business, even though the system is in its infancy.

Although the communications market is growing, our share of the pie is shrinking. Between 1988 and 1994, loss of market share cost us nearly \$6 billion. The new technologies only increase this pressure.

By the year 2000, the number of electronic data transactions in the business-to-business market is expected to triple to 12 billion annually. The number of companies using this technology is expected to increase five-fold.

The American government is a full partner in the revolution. Legislation has been enacted to require companies that pay in excess of \$20,000 a year in taxes -- some 7 million businesses -- to pay their taxes electronically by 1999. Many states have similar initiatives. And both federal and state governments are working to move benefit payments from paper checks to electronic deposits. All federal benefit payments, including social security, will travel electronically by 1999. That affects 400 million payments a year, more than \$100 million a year in postage.

The larger threat, however, lies with the diversion of household-to-business mail. Although the impact so far has been minimal, the trend is picking up steam.

Last year, I mentioned that a major bank was running full page ads in The Washington Post offering electronic banking and bill payment. They still are. Only now their ads include comparisons to nearly a half-dozen of their competitors. And one of those is running its own full page ads.

The household market is heating up. It's only a matter of time before growing public acceptance and access to technology open electronic payments and message delivery up to much wider public consumption.

The Postal Service faces a future of growing competition across all product lines. There is a question as to how fast these changes will occur. However, there is no question that the Postal Service must begin preparing for them now.

This Congress will play a defining role in that process. We are concerned by a number of legislative proposals now in motion. One would mandate price discounts for certain types of mail without guaranteed funding to pay for them. Another would require us to provide free services to businesses that have entered our retail markets. A third would eliminate funding to cover workers' compensation payments for employees of the old Post Office Department. That would oblige us



to book an immediate loss of \$240 million. And the Postal Service Core Business Act of 1997 would apply even broader constraints that would freeze innovation and hamstring our ability to respond to customer needs.

The key postal issue of this Congress, however, is HR 22. No other single action is more important to preparing the Postal Service for the 21st century. I want to thank this Subcommittee for the tremendous work that has gone into this effort.

Mr. Chairman, you have said the time is now to shape final legislation. That 1997 is the year. The Postal Service is ready. We have our sleeves rolled up. We're eager to work with you and all other interested parties to finish the job.

Within the postal community, there is a developing consensus for change. The four pillars of agreement are these. First, the bill must preserve universal service – the binding force of the mail that unites us east and west, rural and urban, rich and poor. Second, it must provide a practical incentive to control costs. Third, it must support progressive products that meet changing customer needs. Finally, it must modernize a rate-making process that is too complex, costly, inflexible, and time-consuming.

Now we need to finalize the specifics. Last week, you held hearings on ratemaking. The Postal Service supports the concept of pricing freedom with proper index controls. This is a proven approach which makes good business sense and protects customer interests. To be successful, however, the index must reflect the industry it serves. This is critical. We support changes in the index so that it accurately models the mix of labor and technology in the Postal Service.

There is a growing consensus among the postal constituencies on the need for change, and the direction of change. In the days and weeks ahead, we look forward to reaching accord on these and other provisions of a final bill that will deliver a United States Postal Service ready to serve the nation at home and around the world in the next century. I am hopeful and optimistic that all of the stakeholders can work together to enact legislative reform meeting these goals.

The Postal Service has come a long way in the past two years. We have a long way yet to go. We have another \$5.1 billion in prior year losses to restore. We have ambitious plans for improving mail service and high targets for new service records. And we have an abiding vision for protecting universal service and delivering it vibrant and intact for a new century of Americans.

With your continuing help, we can deliver a Postal Service that is ready for the global challenge of the 21st century. A Postal Service that serves America tomorrow, as it does today -- everyone, everywhere, every day.

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Mr. MCHUGH. Well, I thank the gentleman for his comments. As I believe you indicated, they were not part of your prepared testimony, and I wasn't aware you were going to make them, but I was pleased to have the subcommittee give you that chance.

Let me first start by saying I, certainly as an individual, never in my mind questioned your motivations as to why you are serving in the position that you hold. Anyone with a second grade ability to read the English language and caring to read a résumé would understand that you have probably been in far more lucrative positions in the past than you are now.

I admire the devotion and dedication to your country that you bring to this job. As you indicated very correctly, I provided the Postal Board of Governors the opportunity to comment should they so choose. I did so because we are an oversight committee by definition. And no matter how distasteful this circumstance is to you personally, and I fully understand that, it is nevertheless a topic that, as a legitimate oversight committee, we are forced to face. I wanted the record to show what was obvious to everyone who knows anything about the Postal Service that this issue was out there. And that, insofar as I was concerned, I felt it best for everyone's interest—the taxpayer, the Postal Service, its customers, this subcommittee, and probably most importantly, you—to let that Justice Department investigation continue and hopefully reach a timely conclusion.

My opinion in the intervening time from that last hearing to this has not changed. I was going to provide you the opportunity to make a comment, as I did the Postal Board of Governors, with the same assurance to you that I made to them. That is, if you choose not to, I understand that.

I am very hesitant to, at this time and in this situation, begin a detailed hearing on that circumstance. I am not aware that we have half the facts, let alone all of them. I don't believe you came prepared, truly, to answer those questions. If you did, that is fine. But I wouldn't want to make that guess.

And so, I, as the chairman, would suggest to my fellow Members here—and we run a democracy on this subcommittee, and if I am overruled so be it—that we take your statement for the record as you made it today, and that we continue to allow the Justice Department to finish. And then, we will go into this matter because it is far too important for us to overlook.

I would also say that, while it is my opinion we should let the Justice Department continue its work, I don't think that should be forever. Eight months is a long time. We had a meeting yesterday, the subcommittee staff, and we decided we will express our interest in seeing this brought to a timely conclusion. I would hope you would support that kind of initiative.

Mr. RUNYON. I certainly would.

Mr. MCHUGH. Justice delayed is justice denied in my opinion, so I would on that topic yield to any other Members who may have any comments on that, and certainly to the gentleman from Pennsylvania, Mr. Fattah.

Mr. FATTAH. Well, Mr. Chairman, we discussed this somewhat at the last hearing. My feelings have not changed which is that I think that Washington is too—is too—too enmeshed in destroying

people's reputations without any facts. If there is an investigation, it should be brought to some conclusion and expedited. I think the Justice Department has a responsibility to do that. And I think that as a Member of Congress, at the least we should give you and anyone else appearing before us, or as part of the Federal Government, the protections that you fought for in the war, which is that in America you are innocent until proven guilty. And absent any charge, you should, I mean, not even be, I think, put into a position in which these matters are commented on in the way that they have been in the press and other places.

I think that for our committee we should be focused on the systems involved. I would assume that the Board of Governors has in place ethics and accountability procedures that would touch upon every aspect of the Postal Service, and to the degree that that is not in place, we should, as part of our oversight responsibilities, try to help think through that.

But we should not assume because of the headline, either related to you, the President of the United States—we talk about justice denied, justice delayed. I mean, they are still looking at matters relative to 10 years ago when he was in Arkansas. I think that—or the Speaker of the House, anyone else, I think that these matters really rub against the whole spirit of your comment about the desire of people to want to be involved in public service. And I don't think we encourage many more to want to offer themselves to make a contribution when they see the kind of examples that are set and the way that some of these matters are handled. So I thank the chairman for the opportunity to comment.

Mr. MCHUGH. I thank the gentleman for his comments.

Any other Member choose to address this at this time?

Mr. OWENS. I really would like to support your manner of handling this, Mr. Chairman, and say that as public officials we are well aware of the barracuda approach taken by the media on these kinds of perceived wrongdoings, and it is most unfortunate. I think the American people would like to have the media direct most of its attentions on the operation of the post office. There is a love affair with the post office. Everybody needs it and wants and everybody has high expectations. I have lots of interaction and complaints about the Postal Service. I think that is why I am here for and that particular matter is quite minor compared with the overall work of this committee and of this agency.

Mr. MCHUGH. I thank the gentleman.

With that, we will put aside that issue to another day. An uncertain day, but another day at some point.

Mr. RUNYON. Right.

Mr. MCHUGH. It does, I think, take us back to one of the topics that the GAO has talked about and that was the focus of their testimony here today, at least in part. It is the problem of procurement and less than well-defined ethical standards where management employees procured certain items where there was a conflict. And that, in turn, ties into the other reports that they have issued with respect to Express Mail corporate accounts and the problems they have delineated, and also to the bulk mail business acceptance practices issue.

You heard Mr. Motley respond to your efforts to address the concerns raised in those reports I described as a work in progress. I think it is very important that you are able to assure this subcommittee and, probably even more important, that you are able to assure the constituent groups and public at large that that kind of internal oversight is a primary focus of this new administrative team. And that that, in turn, shows your—not just need for but rather your ability to handle even more flexibility that is an important part of the reform effort.

Do you want to talk about those reports, the ethics standards with respect to procurement, bulk mail, and EMCAs?

Mr. RUNYON. Yes, sir, I would like to talk about some of those. First, I would like to ask to you accept into the record the program that we have.

Mr. MCHUGH. Without objection, that document will be filed in its entirety.

[The information referred to follows:]

## **THE U.S. POSTAL SERVICE ETHICS PROGRAM**

### **I. Legal requirements for agency ethics programs.**

The Postal Service is required to administer an ethics program in conformity with the ethics laws and regulations applicable to the Executive Branch. Under the Ethics in Government Act of 1978, § 402, as amended, 5 U.S.C. App., and Executive Order 12,731, § 301,<sup>1</sup> general oversight and regulatory authority over agency ethics programs have been centralized in the Office of Government Ethics (OGE). In addition to establishing substantive ethics rules in the Standards of Ethical Conduct for Employees of the Executive Branch and certain other regulations, OGE has prescribed rules governing the mandatory content of agency ethics programs, primarily in 5 C.F.R. § 2638.202-203. These requirements divide program responsibilities between the agency head and a designated agency ethics official for each agency.

Under section 2638.202, the agency head is responsible for leadership, resources, and selection of a designated agency ethics official.

Under section 2638.203 of Title 5 C.F.R., the designated agency ethics official shall coordinate and manage the agency's ethics program, which consists of the following elements:

- liaison with OGE
- review of financial disclosure reports
- education and training programs (specific requirements in 5 C.F.R. § 2638.701-704)
- monitoring administrative actions and sanctions
- counseling
- record keeping
- periodic evaluations
- coordination with the Inspector General.

Section 224.47 of Title 39 of the Code of Federal Regulations establishes the General Counsel as the Postal Service's designated agency ethics official.

### **II. Postal Service Ethics Program.**

In addition to Senior Vice President and General Counsel Mary Elcano, the Postal Service's Designated Agency Ethics Official ("DAEO"), other agency ethics officials include the Alternate Designated Agency Ethics Official ("Alternate DAEO"), Charles

<sup>1</sup> The President is empowered to establish employee conduct regulations by 5 U.S.C. § 7301. By virtue of 39 U.S.C. § 410(b)(1), this section and the regulations apply to the Postal Service.

D. Hawley, Senior Counsel for Ethics, Civil Practice Section, Law Department, and William R. Gilligan, Managing Counsel, Civil Practice Section. Wendy A. Hocking, an attorney and Team Leader for Ethics Training, along with several other attorneys and paralegals in the Civil Practice Section have received ethics training and share various ethics program responsibilities. A number of attorneys in the National Litigation, Legal Policy, and Corporate Law sections of the Law Department have received ethics training and are involved in the various aspects of the ethics program, primarily focused on client training. In addition, 23 people from Postal Service Headquarters serve as the designated ethics representatives for their departments, and receive special training in ethics matters on at least an annual basis.

In the field, the ethics program is aided by the Managing Counsels in the Law Department's eight Field Offices. The Managing Counsels and selected field office staff administer the confidential financial disclosure process for field employees. Moreover, each Performance Cluster has designated Ethics Resource contacts, typically managers in the areas of Human Resources, Finance, and Administration, are designated Ethics Resource contacts.

Following is a summary of the ways in which the Postal Service's ethics program is administered to address each element defined by OGE.

**A. Liaison with OGE.** Liaison with OGE is provided within the General Counsel's office at several levels. The General Counsel has personally met with the Director of the Office of Government Ethics on several occasions. Both the Director and OGE's General Counsel came to the Postal Service to view the 1995 ethics training broadcast with Postal Service officers.

Day-to-day liaison with OGE is provided by the Alternate DAEO, Senior Counsel Charles Hawley; Managing Counsel of the Civil Practice Section, William Gilligan, and by Civil Practice staff attorney Wendy Hocking. Mr. Hawley frequently consults with OGE's General Counsel's office and with OGE's desk officer assigned to the Postal Service. He is an active member of the Interagency Ethics Council, meeting monthly with ethics officials from OGE and other agencies to compare notes and work on matters of common interest. Mr. Gilligan consults with OGE representatives on a frequent basis, and Ms. Hocking has been working closely with OGE's Associate Director for Education and her staff on training matters, as well as participating in the monthly meetings of the Interagency Ethics Council.

At the Postal Service's invitation, OGE's training unit provided ethics training for USPS headquarters departmental ethics representatives in March (topic: general

ethics) and will provide training in October (topic: collection and review of confidential financial disclosure reports) of 1997. OGE will also conduct an ethics workshop for the Law Department's Managers and ethics attorneys on May 1, 1997.

The Postal Service annually sends the maximum allowed representation (most recently 10 people) to OGE's 3-day Annual Ethics Conference, to learn about OGE requirements and recent developments in government ethics, participate in training seminars, and network with fellow government ethics professionals from OGE and from other Executive Branch agencies. The Postal Service's delegation has consisted primarily of ethics professionals from the headquarters and field components of the General Counsel's office, together with representation from Purchasing and from the Inspection Service.

Annually, the General Counsel's office has filed a required statistical report in the format specified by OGE, due at the end of January. This report provides OGE with data concerning agency programs in the areas of financial disclosure, training, counseling, and other matters.

**B. Review of Financial Disclosure Reports.** Two reports are collected from different groups of employees: (1) SF 278 (public report), and (2) OGE 450 (confidential report). The Postal Service's procedures for filing and review of these reports as developed since 1993 were codified in a Management Instruction that was issued and disseminated in January 1997.

1. **SF 278.** Public reports are required to be submitted by all employees serving in positions paid at a rate equal to 120 percent of the minimum rate for GS-15. (This filing threshold is currently \$85,073). The reports are filed when an employee first enters such a position, annually thereafter in the spring, and again upon leaving the Postal Service. Corporate Personnel Operations notifies the filers, who return the completed reports to the Civil Practice Section of the General Counsel's Office, where they are reviewed and certified. Approximately 725 postal employees are currently required to file the public reports.

SF 278 is also used by nominees for Governor of the Postal Service. The Alternate DAEO reviews each of these reports in coordination with the Office of Government Ethics and the White House Counsel's office, prior to submission of a nomination to the Senate. Afterwards, the Alternate DAEO has provided an evaluation of the report if requested by the Senate committee considering the nomination. Once a Governor is confirmed, he or she submits an annual report which, though confidential by law, uses SF 278. These reports are reviewed by the Alternate DAEO.



**Conflict Check Procedures.** As explained in the Management Instruction on Financial Disclosure Report Procedures for the U.S. Postal Service that was issued in January 1997, federal criminal law prohibits postal employees from knowingly participating in any particular matter that will have a direct and predictable effect on their own financial interests, or those of certain family members, business associates, and organizations. It is the personal responsibility of each employee to comply with this law, and to identify and avoid conflicts of interest. Employees receive training regarding their ethics obligations, and are encouraged to seek information and advice with regard to ethics matters from the DAEO, Alternate DAEO, and other agency ethics officials.

To assist employees in detecting potential conflicts between certain postal business matters and the reported holdings (as required by SF 278 forms) of the postal Governors, the Postmaster General, and the Deputy Postmaster General, the General Counsel has developed a process for performing conflict checks. Up-to-date information is obtained monthly from the Marketing, Finance, and Purchasing areas, and from the Board's Secretary and various management committees, with respect to business matters being contemplated or pursued by the Postal Service. The Civil Practice Section then performs conflict checks prior to management meetings and the monthly Board of Governors meeting. Software has been installed that allows conflict of interest checks to be performed by searching databases of individuals' coded financial information for "hits" with business names. If a search should reveal a match, the individual is contacted immediately and advised to recuse himself or herself from all official matters pertaining to that business until the situation can be fully analyzed.

In addition to the computerized checking process, Law Department ethics staff have initiated screening processes to ensure that executives who have executed recusal statements do not participate in postal business that involves or affects any of their actual or imputed holdings. The screening process involves making the direct reports and staff of the executives aware of the recusal statement and the businesses listed therein so that postal matters involving those businesses will not come before the executives until and unless it is determined that there will be no actual or apparent conflict, or a waiver is received allowing participation in the matter.

As an added means of detecting potential conflicts of interest, all the Law Department sections coordinate regular meetings with their client organizations to identify pending and proposed postal business matters and the parties involved in them. Conflict checks are then performed using this information, and matters

appearing to involve a potential conflict for a governor or officer will be identified, researched, and resolved at an early stage. Whenever appropriate, the General Counsel will seek waivers and certificates of divestiture from OGE for postal officials.

**2. OGE 450.** The Postal Service is required to obtain confidential financial disclosure reports, using Form OGE 450, from employees paid at levels below that for filing SF 278, if their positions involve substantial responsibilities in contracting, law enforcement, or certain other matters. There are currently approximately 6,400 employees in this category. Reports are to be filed upon entering such a position, and annually on October 31. Under existing practice, as codified by the Management Instruction, each Vice President determines which employees should be directed to file, from headquarters and headquarters-related units. Headquarters and headquarters-related units file their forms with their Vice President, each of whom has designated an ethics representative to receive, review, and maintain the reports, with advice and assistance from Civil Practice. If the ethics representatives themselves are required to file OGE 450, their forms are reviewed and maintained by the Civil Practice Section. By request of the Chief Operating Officer, Human Resources at headquarters maintains a standardized list of positions required to file from field organizations. For field employees, Human Resources initiates a mailing from the Minneapolis Information Systems Service Center (ISSC) notifying those required to file reports. Field employees file their reports with the assigned field counsel office, which reviews and maintains the reports.

Kit, Formats and Review Training. To assist both headquarters ethics representatives and field counsel in performing their functions, since 1993 the Law Department has annually distributed to them a detailed Kit for Collecting Confidential Financial Disclosure Forms. These kits contain: a cover letter from the DAEO; checklists showing deadlines for collection and review; a transmittal letter from the DAEO to filers; four summary report forms to return monthly to show the progress of their work, and a final report form; a sample delinquent filer letter; and other suggested strategies for following up with delinquent filers. The summary reports are used by Civil Practice to prepare the annual statistical report required by OGE each January. In the fall of 1997, all headquarters ethics representatives and field counsel are scheduled for an additional four-hour OGE training session at Postal Headquarters on the collection and review of OGE 450 forms.

**C. Education and Training.** OGE regulations require two types of training: (1) introductory familiarization for new employees, and (2) annual training for filers of financial disclosure reports. Each of these types of training must be at least one

hour in duration. The Postal Service also provides other supplemental ethics training.

**1. Introductory Familiarization.** When the current OGE training regulation took effect in 1992-1993, the Postal Service was required to make certain information available to its more than 700,000 employees, and to provide each employee with one hour of familiarization with the Standards of Ethical Conduct for Employees of the Executive Branch. This was accomplished through several actions. First, the General Counsel's office prepared a letter that was signed by the Postmaster General and mailed to all employees, providing notice of the Standards, announcing the forthcoming familiarization training, and providing the names and telephone numbers of ethics advisors. Next, with professional assistance, the General Counsel's office prepared a video training tape, "Ethics and You," which was distributed throughout the Postal Service for showing to all employees. Several thousand copies of the Standards were mailed to offices around the country to be available to employees upon request, in connection with the training.

Subsequently, the General Counsel's office assisted the Corporate Training organization to produce a new module on ethics familiarization to be included in training new employees. For the past year, course materials have included an edited version of the "Ethics and You" video, written materials for the instructor, and handouts for the employee including a summary of the Standards of Ethical Conduct, a list of USPS ethics advisors, and information about where to consult the full text of the Standards. In addition, the full text of the Standards of Ethical Conduct can be accessed and downloaded by employees on the Postal Service's Web site. Other ethics information, including a training calendar and updated reference lists, will be added to the Web site during the next few months.

**2. Annual Training for Filers.** Beginning in 1993, OGE regulations have required that all filers of financial disclosure statements receive at least one hour of ethics training every year. The General Counsel's office has coordinated each year's training, which has been accomplished through the production of Postal Satellite Training Network (PSTN) broadcasts for all Postal Service financial disclosure filers at headquarters and in the field. In 1993, the training featured a panel of ethics professionals answering questions in interactive call-in format. In 1994, an ethics training video produced commercially for the Department of Defense was modified for the Postal Service broadcast. In 1995, ethics counsel from the General Counsel's office served on an interagency committee which produced a Government-wide training broadcast, with an interactive call-in component. In 1996, the General Counsel's office coordinated a satellite broadcast using selections from a second government-wide broadcast earlier in the year and adding

postal material presented by the General Counsel and other Postal Service officers, including the Chief Operating Officer, the Chief Postal Inspector, the Vice President for Human Resources, and the Vice President for Purchasing.

Each year, video copies of the training are produced for use by those employees unable to participate in the broadcast. Each organization is assigned responsibility for scheduling its own filers to receive the training, and for reporting the results back to the Postal Service's Corporate Training organization. In 1996, the ethics broadcast was viewed either live or on tape by at least 7,472 employees in fulfillment of their annual ethics training requirement, a significant increase over 1995, when 4,346 employees saw the broadcast.

Since 1994, the General Counsel or her staff has provided annual ethics training to the Board of Governors at one of its regular meetings. In 1996, ethics training was provided to the Board of Governors at its December meeting.

**3. Voluntary Training.** The General Counsel's office and other offices in the Postal Service have sponsored numerous other ethics training sessions to focus on specific needs.

**a. Ethics resource training.** In 1993, following introduction of the new Standards by OGE, the General Counsel's office recommended to management that a full day of ethics training be provided to individuals throughout the field organizations who could then serve as ethics resources for their organizations to field routine questions and channel issues needing legal review to the appropriate field counsel. Field management designated about 170 employees to add the ethics resource function to their duties. Attorneys from the General Counsel's office trained them at several locations around the country. Also in 1993, about 20 headquarters ethics representatives were named by the Vice Presidents and trained by the Law Department.

In March 1997, current headquarters ethics resource people received an ethics overview training. They are also scheduled in October for specific training regarding the confidential financial disclosure report process. In addition, Law Department Headquarters and Field attorneys will receive refresher training in Ethics on May 1, 1997.

**b. Procurement ethics training.** Developments on several high-profile contracts have reminded the Postal Service of the need to devote special attention to ethics in the procurement context. In 1993, the Purchasing, Transportation, and Facilities organizations provided a day of specialized ethics training to all of their responsible

personnel nationwide, about 1,100 trainees. Also in 1993, procurement authority and responsibility in these areas was consolidated under one Vice President. The General Counsel's office assisted in the development of the training course, which was presented by outside trainers under contract. In 1994, the same group received 2 1/2 hours of follow-up ethics training. In 1996, working with another federal agency, Purchasing enhanced its training program by developing some interactive computerized training focusing on procurement-related issues. The computer-based training was subsequently adapted by Corporate Training and Development for use in connection with new employee orientation on a nationwide basis. Moreover, the new purchasing manual makes procedures uniform in all areas of purchasing.

**c. Filer training.** In 1993, when the SF 450 forms developed by OGE were first in use in the Postal Service, the Alternate DAEO provided an interactive training session called "Cover Your Assets," broadcast on PSTN, on how to understand and complete the form. The broadcast was intended for all interested filers of SF 450. "Cover Your Assets" is maintained as an ethics information resource in OGE's Ethics Information Center.

In addition, supplemental instructions are sent to SF 450 filers with their 450 forms, and to OGE 278 filers with their 278 forms; a list of ethics contacts is included with both packages.

**d. Requested training.** Each year attorneys from the General Counsel's office, both at headquarters and in the field, have provided several ethics training sessions for particular groups upon request. Since 1995, teams established to work on several important contracting assignments have requested and received ethics training, as has the Inspection Service's forensics section.

In 1996, a cross-functional ethics team was created in the Law Department to develop customized training programs for Postal Service departments. This year specialized ethics training has already been completed for the Marketing, Finance, and Human Resources Departments.

**e. Ethics news features.** Ethics counsel at headquarters distributed an ethics newsletter in 1995; another is planned for 1997. Since 1996, the Law Department has used Postal Link (an e-mail system for 20,000 postal managers) to feature various timely ethics topics and reminders, such as a reminder about gift restrictions that was featured at the beginning of the 1996 holiday season. Postal Link will be frequently utilized to inform managers about upcoming filing deadlines, raise

awareness of ethics issues, and widely disseminate information about ethics training and contacts.

**f. Officer training.** In 1994, after the new OGE Standards were introduced, the Alternate DAEO provided special face-to-face training sessions for the officers of the Postal Service, after providing them with a written summary in advance. While similar in content to the training for other filers of financial disclosure reports, the officer training provided an opportunity for more questions and interchange within small-group settings. This training has continued through the present, and was given in 1996 to three new Vice Presidents and the Inspector General.

**D. Monitoring administrative actions and sanctions.** The General Counsel's office maintains direct control over all formal divestiture actions under the ethics rules, and over late-filing fee assessment and collection for SF 278 filers. The Alternate DAEO and the Inspection Service's Independent Counsel have been meeting quarterly to review the status of any ethics matters referred by the General Counsel to the Inspection Service for investigation. Summary sheets for ethics matters are maintained by the General Counsel's Office based upon information provided by the Inspection Service. The Chief Inspector sent a letter to all inspectors in early 1997 reminding them of their obligation to notify the General Counsel and the Office of Government Ethics every time they make an ethics referral to the Department of Justice, and to provide follow-up information on the referrals. The General Counsel has sent a letter to the Inspector General, also, to coordinate the referral of matters to the Department of Justice and the Office of Government Ethics.

**E. Counseling.** The General Counsel's office makes ethics counseling and advice available upon request through the Alternate DAEO at headquarters and through each of the eight field legal offices. All employees have the right to request counseling. Counseling covers any matter arising under the Standards of Ethical Conduct for Employees of the Executive Branch, the Postal Service's supplemental standards, and criminal statutes pertaining to ethics. The ethics representatives for each Vice President at headquarters and about 170 specially trained ethics resource personnel in the field are available to facilitate and feed into the General Counsel's ethics counseling program. As a very large part of his daily work, the Alternate DAEO routinely provides ethics advice for the officers of the Postal Service and other headquarters personnel on such matters as OGE's "widely attended gathering" exception to the gift rule, gifts or contemplated gifts by fellow employees, gifts received from international governments, conflicts of interest, outside employment and post-employment discussions, and endorsements or recommendations for charities, non-profit groups, or the like. Several of OGE's

regulations provide for requests by employees for rulings or waivers by the DAEO or her representatives on ethics matters, as do the Postal Service's own rules on outside employment interests and spousal service as a highway transportation contractor. Such rulings are issued by the DAEO or Alternate DAEO, or by attorneys in the field offices usually in consultation with the Alternate DAEO.

Due to the critical importance of ethics compliance in procurement matters, in 1995 the General Counsel directed the formation of an Ethics Advisory Council to remain available to explore and resolve all ethics issues surfaced in connection with major procurements. This Council consists of the Alternate DAEO; the Chief Counsel, Purchasing; the Manager, Field Support and Integration; and the Manager, Headquarters Purchasing. The Ethics Advisory Council was responsible for formulating remediation strategies in connection with issues identified in several recent contracts.

**F. Record keeping.** OGE's requirements for maintaining financial disclosure and ethics advice files, together with its requirement for annual statistical reports on financial disclosure, training, and other program elements, define the primary record keeping need. Since the Civil Practice Section reviews all SF 278 reports, that section maintains the files and records pertaining to those reports. OGE 450 files are maintained by the reviewers on-site in their respective headquarters departments, and by the Field Legal Offices. Requirements for the security of these files are contained in the associated Privacy Act Systems of Records in the Administrative Support Manual, and are summarized in the Management Instruction that was issued in January 1997. For headquarters and related units, each Vice President and his or her designated ethics representative have review and record-keeping responsibility for OGE 450s collected within their respective organizations. For field units, the field law offices have performed these functions, dating prior to 1986 when field counsel reported directly to the former Regional Postmasters General. Both the headquarters ethics representatives and the field counsel are required to report summary statistics to the General Counsel's office for use in monitoring compliance and reporting to OGE. Report formats are in the Kits supplied in advance of each fall's OGE 450 filing cycle. Records of ethics advice and counseling are maintained by the legal office providing the advice, including the Civil Practice Section and each field legal office.

**G. Periodic evaluations.** The main elements of OGE's current requirements for federal agency ethics programs are a product of sweeping government-wide reform and standardization of both substantive and administrative ethics requirements introduced in 1992-1993. These changes came at a time when the Postal Service was undergoing its own restructuring. OGE's newly standardized SF 450 disclosure

requirement took effect in the fall of 1992, when the widespread staffing changes and reassignments made it impractical to determine who should file, in time to comply. Early in 1993, OGE's new substantive Standards of Ethical Conduct for Employees of the Executive Branch took effect, superseding individual agency standards. Also in 1992-1993, OGE's training rules applied for the first time, requiring one-time introductory familiarization with the new Standards for all existing employees, similar familiarization subsequently for all new employees as hired, and annual ethics training for financial disclosure filers. This entailed familiarization training for over 700,000 postal employees. Accordingly, for 1993 and the next few years, the Postal Service's administrative task was to adjust to the new generalized requirements newly applicable to all agencies. The efforts of the DAEO and her ethics staff focused on getting sufficient systems in place to accommodate these requirements.

At the time of the 1992 reorganization and shortly after, the General Counsel made several changes to the management of the ethics program. She added an intermediate level manager (then the Chief Counsel, Ethics and Information Law, and now the Managing Counsel, Civil Practice) to assist the Alternate DAEO in directing the day-to-day ethics program. She requested each headquarters Vice President to designate a permanent ethics representative to work with her ethics staff to accomplish required financial disclosure, ethics training, and ethics counseling tasks. The Chief Counsel, Ethics and Information Law, and the Alternate DAEO then met individually with each Vice President's ethics representative to explain the OGE requirements, work out with them how to achieve the requirements within their organizations, and provide written instructions. Included in these discussions was a consultation about each organization's evaluation of which positions to designate as having to file Form 450. The current ethics representatives received overview ethics training in March 1997, and will receive training on the collection and review of Forms 450 in October 1997. Both training courses will be conducted by OGE training staff at Postal Service headquarters.

Early in 1994, after the first training and filing cycle, the General Counsel provided to each Vice President an Ethics Compliance Report for the VP's organization, summarizing that organization's progress in completing training and financial disclosure requirements. Several Vice Presidents whose organizations had not completed the requirements or had not reported their statistics were provided deficiency notices, requesting further action.

From 1993-1995, the General Counsel's office organized periodic general meetings of all headquarters ethics representatives to plan for annual filing and training



cycles and to answer their questions. This will be repeated in 1997. A cross-functional Ethics Team, consisting of an attorney from each of the Law Department's sections, meets regularly to focus on ongoing ethics training activities, and to plan and develop the annual ethics broadcast for 1997.

The OGE-initiated changes and the Postal Service's internal restructuring also necessitated a review of Postal Service ethics regulations to determine what needed to be revised. A detailed "Catalog of Ethics Responsibilities" was prepared late in 1993, listing all external regulatory requirements in detail and summarizing who currently performed which tasks in the Postal Service, and what internal regulations needed revision. Afterwards, the General Counsel's office prepared a revision of the Postal Service's Supplemental Standards of Ethical Conduct, obtained the required approval from the Director of OGE, and published in the Federal Register for public comment. A final rule was published in the Federal Register on September 11, 1995, for codification at 5 C.F.R. Part 7001. At the same time, the General Counsel's office published a separate document in the Federal Register revising the Postal Service's Rules of Conduct regulations codified at 39 C.F.R. Part 447, formally repealing material superseded by OGE's Standards of Ethical Conduct for Employees of the Executive Branch, and conforming the regulations to the new Postal Service supplemental standards.

As noted in section E, above, in 1995, the General Counsel required the formation of the Ethics Advisory Council to quickly and comprehensively address any ethics issues that surface as major procurements are developed. The General Counsel's office also developed a new ethics clause for use in personal services contracts retaining individuals to work on procurement matters.

**H. Coordination with the Inspector General.** The General Counsel and the Inspection Service have ongoing communications, as well as documentation of the status of ethics matters referred by the General Counsel to the Inspection Service for investigation. The Alternate DAEO and other ethics attorneys meet quarterly with the Inspection Service's Independent Counsel to address those needs. In 1996, the Inspection Service's tracking system was adapted to track ethics-related offenses that are referred to the Department of Justice for possible prosecution. The tracking information is provided to the General Counsel and to OGE on a regular basis. The General Counsel will similarly coordinate communications and documents regarding ethics matters with the new Inspector General and the IG office.

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Mr. RUNYON. The program we have is the result of an OGE report that is 2-years old. We worked very diligently with OGE. They have approved what we have, and they have given us a letter recently, which I'd also like to submit for the record, although you may have that. Although if you don't, I would like to supply that for the record.

Mr. MCHUGH. We have a copy.

Mr. RUNYON. Where they have given us a clean bill of health on the things that they had in their letter.

I would like to say further that when I first came to the Postal Service, I was a little surprised to find out that we had three separate entities in the Postal Service who were doing purchasing. We changed that. We have one purchasing organization now that does all the purchasing. The way it was, it just was not being done properly.

Some of the things that they talked about, I think that the GAO talked about, are purchases that cover a number of years. I think Mike, can you help me with the kinds of things they're talking about? Some of the property that you're talking about have been many years in coming.

Mr. COUGHLIN. If I recall, there were seven procurements involved in the thing and they went back I think as far as 1986, if I am not mistaken, and maybe the last one was around 1993 or so.

Mr. MOTLEY. I believe that is right.

Mr. MCHUGH. Well, if I might, I suppose that's true, but what is troubling to me, and I think what was at the core of Mr. Motley's responses, is that none of this is new. Certainly it predates your coming in as the PMG, but it seems to have a pattern of reacting and then letting things slide again.

I mean, if you look at the Office of Government Ethics oversight activities with respect to this issue over the years, as early as August 1995, the office report said that some improvements have been made, but more work was needed. Now you have the letter.

Are you going to continue to be vigilant, is the question. Are you going to continue to be vigorous trustees of this very important internal oversight activity, not just on the procurements but on bulk mail?

And where we can argue with you about the figures, I think the reality is pretty clear that you are losing a lot of money, or have very recently lost a lot of money, because of not sufficiently stringent oversight and checking and the issue of the Express Mail corporate accounts. That is what we are concerned about. Not that you are reacting and you got a letter, but that you are going to continue to be vigilant in that area.

Mr. RUNYON. We definitely are. You know it is not to our advantage to let money just slide through the cracks. Any time we find a place that we can improve our revenues, we definitely are going to do that. And if it's just changing a procedure or stopping somebody from doing something that they're not doing in the right way or having them do it in the way they should do it and checking it more often, we definitely are going to do that because we don't want to give up revenue unnecessarily. We don't want people to be able to pass mail through at less price than they should pay. So

we have several groups that are working on that at the present time.

Mr. COUGHLIN. I might add, Mr. Chairman, that there's another group that performs some pretty heavy oversight besides this committee that probably doesn't get the attention that it deserves, particularly in the last year or two, and that is the audit committee of our Board of Governors. They have looked at each of the items that were mentioned by GAO here this afternoon as well as a number of others. And as somebody who attends those meetings that they hold almost every month, they give considerable intense attention to ensure that this Postal Service is following up and putting into place the internal controls that GAO found lacking in those reports.

Mr. MCHUGH. Well, let me cite a specific. You had, as is mentioned in several of the GAO reports, a \$46 million overrun in your advertising account.

The thing that I find most troubling about that is that apparently, as I understand the issue, came to light only after there was an internal audit that your controller had somehow—and I would really be interested in someone explaining the logic—someone had somehow convinced your controller, don't pay attention to the advertising account individually, just look at the bottom line, so if we overspend in one area, that is all right just so we come out all right in the end. And we are talking 1996, so this is not ancient history.

Mr. RUNYON. No it's not.

Mr. MCHUGH. I spent a little time in Government finance back when I had a real job and real life and worked in city government. Some could argue that wasn't a real job, too. But to me it was.

That is a pretty incredible arrangement to have. I can imagine traipsing down to the second floor in the city hall in Watertown, NY, and trying to convince the city auditor to forget about the internal accounts and the end of the year will come out all right. He would have thrown me out the window.

Mr. RUNYON. Mr. Chairman, I can guarantee you that does not exist any longer. That will not happen in any other department. That is now controlled totally by line item and will be controlled by the controller.

You are right; there was a mistake made. There were controls changed in that particular area. They are now in place and they will guarantee that that won't happen.

Mr. MCHUGH. That is good to hear. As I said, faith and trust in your ability—and by “you,” I mean generically the Postal Service—to handle the issues that you have is essential if we are going to argue and proceed on other kinds of internal flexibilities.

I would be happy to yield to the ranking member, Mr. Fattah.

Mr. FATTAH. Thank you, Mr. Chairman.

Postmaster General, obviously some things are going very well with the post office but part of oversight is to delve into some matters that are yet to be successfully handled, and I want to ask you about the principal matter that concerns me, which is the whole issue of labor management relations.

The Postal Service has had a long history of having very hard working people who somehow in their relationships with the management things just don't seem to work perfectly and that contin-

ues to today. There is also the problem of the fact that with no ability to strike, there is a grievance procedure which seems to have had a backlog that is, you know, part and parcel of the whole design of it. And I would like you to speak generally to what your plans are, what you envision, how you think you might be able to improve the relationships between labor and management. And also, on this issue of the grievance procedure itself and the backlog, if you could specifically respond to that. That would be helpful.

Mr. RUNYON. We have started having meetings under the summit title and Mr. John Calhoun Wells, who is the Director of the Federal Mediation and Conciliation Service, is leading those meetings. He has convened us three times now I think. In addition to that, we are having separate meetings, individually with unions.

And one of the first things—the first thing that we are working on is grievance procedure. We need to get the process fixed. The process, in my opinion, is not right right now. It's not working. And so we need to fix the process, and we are working very diligently at this time to do that.

I'm meeting with Mr. Sombrotto and Mr. Biller to address these things, but that is at a different level. We have other people working at a working group level to try to resolve how we go about solving these process problems.

One of the reasons that we have a lot of grievances these days is that we are undergoing a lot of change. Automation is causing people to be concerned. And so that creates some problems. So we do have those kinds of problems and we are trying very desperately to resolve them.

Do you want to speak to that, Mike?

Mr. COUGHLIN. I don't think there is much I can add that Mr. Runyon hasn't already said. It's the combination of change. I think we have to admit that management itself has been inflexible at times and in certain locations around the system, and I would suggest that there may well be a third element to the problem and that is some structural problems or perhaps political problems within the union organizations themselves. It is a complex problem and to try to overgeneralize about what the cause might be is probably dangerous.

Mr. FATTAH. As part of the reform effort of the Congress, at some point we may consider structurally the Board of Governors and whether there is any opportunity there as we have seen in other major labor-intensive corporations that may be put on the Board of Governors some representative of labor or working people so that the board might be more sensitized, or sensitive I guess is the proper way to say it, to those issues. And I may not have an immediate reaction to this notion but we have seen it with some other major enterprises in our country that this has led to some level of improvement.

Mr. COUGHLIN. I might just—I don't think I would know enough about the experiences in those other industries where union representation has been on the board. I think I'd want to look at that before I swung one way or the other on the issue.

Mr. FATTAH. Let me ask a question that I know was covered earlier with the other witnesses, but you would probably be better able to respond to it.

I represent Philadelphia and I know my colleagues are from New York, both the chairman and Mr. Gilman probably have had the similar issues raised with them about the notion of this centralized procurement and how it would impact potentially in terms of the purchases of uniforms. And I know that, you know, we may seem like we are working at cross purposes here. We want you to make as much money as you can make, but the other thing we don't want to see happen is there to be a negative impact in terms of the garment industry in terms of American workers who are earning livable wages making uniforms for postal employees. So, I put it on the table; I would be interested in your response.

Mr. RUNYON. I would like to respond. At the present time, with the exception of footwear, there is no requirement for domestic source.

Mr. FATTAH. Well, we would like to have a domestic source.

Mr. RUNYON. Yes, the change that we are going to be making is that there will be a requirement for domestic source for all uniforms under the new arrangement. So we are changing that from not a requirement for domestic source to a requirement for domestic source.

We now have some 200 uniform manufacturers around this country. And the majority of them are nonunion manufacturers. Three of our five largest uniform manufacturers are union manufacturers. Our idea is to award these contracts on a best value basis and not low bid. You can get low bid and be buying clothes more often. But we are going to be going on a best value basis. I think that's what we're planning to do.

Mr. FATTAH. Well, I won't prolong it but I would like to be kept informed as you proceed through this. I have an interest and there are people who have been earning a living, are sending their children to college, buying postage stamps in Philadelphia, through making these uniforms, and so I have an interest in it. So if you would keep me informed, I would appreciate it.

Mr. RUNYON. We will do that.

Mr. OWENS. Will the gentleman yield?

Mr. FATTAH. Yes, I will yield.

Mr. OWENS. You say that you will be awarding contracts or is there going to be one contract?

Mr. RUNYON. It won't be just one.

Mr. OWENS. It will be a whole series of contracts?

Mr. RUNYON. I don't know. I can't believe that would be just one, but I'll check on that and supply it to you for the record.

Mr. MCHUGH. I thank the gentleman.

So you are going to establish a domestic content requirement. I don't either want to, nor do I need to, put the words in the mouth of either of the two distinguished gentlemen on my right. Well, there are three distinguished gentlemen; only two of them spoke on this issue. But I think a big concern is that we have heard a lot in the news about forced labor, child labor, sweatshops, all of it offshore. That would be very, very troubling to any of us to know that the Postal Service were acquiring uniforms from that kind of source, not the least of which is to say that the U.S. Postal Service wouldn't look a heck of a lot better to most of us in American-made

uniforms. But you are not going to buy offshore. For the first time you are going to have a domestic content requirement?

Mr. RUNYON. That's right.

Mr. MCHUGH. We all agree with that but I, too, would appreciate being kept advised as this goes forward.

With that, I yield to Mr. LaTourette.

Mr. LATOURETTE. Thank you, Mr. Chairman.

I will begin with some praise today and then will get into some issues that concern me and time will permit me to talk about only two of those.

Where I am from, Cleveland, OH, you put Don Peterson in charge and he has been very responsible and responsive to the concerns of the folks where I am from, and I appreciate that very much. And I think when somebody does a good job they should get mentioned and I wanted to mention that to you. And I think originally he was posted in Tennessee or Kentucky, if I remember correctly, and he has come up to the North and he has done a fine job getting along with all of us Northerners, and I appreciate that very, very much.

The two issues that I wanted to talk about, I mentioned in my opening remarks the tension that I hear from my constituents about the Postal Service going into the postal business. And it again relates to the net income figure. It relates to service as opposed to turning a profit. It relates to, I think, some of the labor management items that are under discussion. And I just want to throw up two things for your comment and observation, if you want.

And one is that I directly asked Mr. Motley—I receive a lot of mail and a lot of correspondence from people who pay attention to postal issues in my district and they read the article, and say, I think it's swell that the Postal Service has a net income of \$1.6 billion and is making money, if you want to look at it and I think it is making money. They then read articles about supervisors and others in the hierarchy in the Postal Service receiving tens of thousands of dollars in bonuses toward the end of last year and then they read the articles about the fact, and Mr. Motley touched upon it, that there has been a 76 percent increase in grievance filings in the recent history.

Now, some skeptics in my district, and in Ohio, argue that all of those things are all related. And that in order to turn a profit, the squeeze has been put on supervisors and regional directors to come in under budget or to turn that profit, and in order to earn a bonus and as a result they put the squeeze on the rank and file postal worker which has led to the elevation of grievances.

I was wondering if you have an observation or a thought on that as to whether or not those people are just being skeptical; whether there is some interrelation or what your thoughts are?

Mr. RUNYON. First, I'd like to point out that in becoming more businesslike, the first thing that we've told all our employees is treat the customer like a customer. Provide better service. Service is what our business is. Our service has improved, and times I talk about the fact that we made some money last year, I also talk about the fact our quality improved last year. Over the past 3 years, our quality has improved about 9 points. So that we are at

91 percent now. I think probably this quarter we will be higher than that because we are working at that. And that's the most important thing.

Now, one of the things in the Postal Service when I came here, I was told that we can do service or we can do cost, but we can't do both; so which one do you want? And so I said, I want service, and cost went west.

And then I said, well, you have got to have some cost, service goes west. We now realize that service and cost go hand in hand.

When you eliminate problems, the cost gets better. When you don't have to repair something, and you only do the right thing right the first time, you don't have to do it the second and third time. It costs less. So you can do service and you can do profits at the same time. And that's what we are doing. So those people that say we don't pay any attention to service, I don't believe that. We are paying attention to service because that's one—the only way a person can get that bonus that you're talking about, and I'll speak to that in a minute, is to make the service targets. If they don't make the service targets, they don't get the bonus.

Mr. LATOURETTE. I guess that is the point that the bonuses are tied to service improvement and not cost containment or cost elimination. Is that what you are telling me?

Mr. RUNYON. Both. The economic value added system that we have has three areas in it. One is the revenue, one is service, and one is employees. And we put employees in there because we recognize that when you say to somebody you need to make this money, they might do it on the backs of employees. So we put some measurements in there on employees to see if we could, you know, control that, because if you are beating up employees to make the money or get the service, that's not the way we want to run the business, and so they get graded on all three and they only get the bonus on that basis.

Mr. LATOURETTE. And I am glad to hear that because that answers exactly the question that I get from back home. Are they all three equally weighted?

Mr. RUNYON. Yes, one-third. A third, a third, a third.

Mr. LATOURETTE. And if I could beg the chairman's indulgence, the second part of that goes to the existence of post offices, and I am referencing page 4 of your testimony, how you have to leverage your postal outlets in the country.

We have 89 communities in my congressional district. The post office often is the heart and soul, it is on the town square, and it has been there for as long as anybody can remember. And that, again, brings up the question of service versus business.

When you make your closing decisions is the fact that it is an identifiable part of the fabric of that community given equal weight to the fact that you only have X number of transactions walking out the window and you have so much money to keep the postal clerk there at the window?

Mr. RUNYON. Yes, the fact that it may not be an economic post office has nothing to do with it. We have probably—I don't know the exact number, but I'll provide it for the record—we have several thousands of post offices where we spend \$4 in cost to make \$1 in revenue. And it might be those 89 that you are talking about,

if they are as small as you say, fall in that category. But the law that set up the U.S. Postal Service said you cannot close down a post office for economic reasons. I mean, it is in law. So the first thing we cannot do is violate the law, so that can't happen.

I'd like to get back to the outlandish bonuses or however you used that word.

Mr. LATOURETTE. I didn't say outlandish. I said they were large.

Mr. RUNYON. Large. Mr. Coughlin, who makes \$148,000 as a Deputy Postmaster General, got a \$400 bonus. It's not because he did not do his job; it's because he can't make more money than that.

We had several officers who did not get their entire bonus. I think that it's very appropriate when you make \$1.6 billion better than what the plan was, to spend \$169 million, which was how much was spent on bonuses last year. And I think it's an appropriate number. I don't think it was—I don't think it was even large.

Mr. LATOURETTE. So I am not misunderstood. I didn't say it was inappropriate. What I suggested was if bonuses were given based upon cost reduction only or on the backs of the working force, I thought that was inappropriate and outlandish.

Mr. RUNYON. Right, I would agree with that.

Mr. LATOURETTE. I was questioning how that came about and you answered that and I appreciate it.

Mr. MCHUGH. Thank you. I think the gentleman raised the point about bonuses, and our bill, in Subsection 3783, sets up a structure to provide bonuses for all employees, which I believe the Postmaster General supports. That may help address what is a very legitimate question or legitimate concern.

We have a vote and I would propose that we suspend this hearing while we go vote and try to return as quickly as we can, if you could bear with us please, gentlemen. We will be back. We will stand in recess.

[Recess.]

Mr. MCHUGH. I think, for the sense of expediency, we will continue. I know some of the other Members had to go on to other meetings and won't be able to return, and others are on their way. I know your time is valuable, Mr. Postmaster General, and I appreciate that.

I would like to talk a minute about your revenues. I made the comment last week as I was reading the economists' testimony that I was continuously reminded why I didn't become an economist, basically because I didn't have the analytical ability. I am truly trying to understand your budget, and I don't mean to be either flip-pant or facetious.

But, as I understand from your testimony, you expect to end this year with a \$55 million surplus.

Mr. RUNYON. That was our budget. We expect to end it in about \$500 million.

Mr. MCHUGH. Surplus?

Mr. RUNYON. Yes.

Mr. MCHUGH. OK. Well, that answers the question. Because I was walking through the figures and based upon what you had told



me your revenues are through March, your net income of \$1.1 billion was \$243 million over budget, over your plan.

Mr. COUGHLIN. That's right.

Mr. RUNYON. Yes.

Mr. MCHUGH. As you were approaching the slow season.

Mr. RUNYON. We had the slow season.

Mr. MCHUGH. No matter how slow it could be, go from \$243 to only a net of plus \$55. So you are saying now it is about \$500 billion; \$500 million, actually.

Mr. RUNYON. By the way, the forecast is something like a little in excess of \$200 million a period for four periods, which would be \$800 million.

Mr. COUGHLIN. Loss.

Mr. RUNYON. Loss. That's the slow season. It gets——

Mr. MCHUGH. I am sorry, would you repeat that?

Mr. RUNYON. You said we're going into the slow season, and we are.

Mr. MCHUGH. Well, as I understand it, you are.

Mr. RUNYON. That's true.

Mr. MCHUGH. Yes.

Mr. RUNYON. And the way the revenues come in at the Postal Service, during these months that are coming up, vacation periods and replacements and low mail volumes and things of that nature, we have losses. And our projected losses, and I'll provide these to you for the record, but it's something like \$200 million on average. That's just a round number. But that's \$800 million from the \$1.1 would be \$300 million. And I'm saying that we think we're going to be able to not lose that much and end up with \$500 million.

Mr. MCHUGH. OK. Well, that is an important change.

Mr. RUNYON. Uh-huh.

Mr. MCHUGH. When did this change, in your estimate, occur? I mean, is pretty recent?

Mr. RUNYON. Well, of course it changes almost every month as you get what you've got. I guess what you're thinking about is why we're going to lose some money next year.

Mr. MCHUGH. I am considering that. I am also wondering to what extent this new information may or may not have an effect on the deliberations you mentioned in your opening statement that the Board of Governors are currently going through with respect to a rate increase.

Mr. RUNYON. Right. The facts are that, about a year ago, we expected we were going to lose about \$2.2 billion last year. Then we went to work to see what we can do to increase revenues and lower our cost. By the time it was necessary to submit our budget to the President, we had that down to \$1.8 billion, and that's what we submitted to the President.

At this time, we're at about a \$1.4 billion loss next year. And we're looking for ways to offset that, and we haven't got much time to find them. And that's why we, you know, we got the 60 to 90-day period that the board was talking about. If we can't find them, we've got a real problem, I mean, running a loss. We don't want to run a loss. We should not be running a loss. And if it comes out that way, then we've got a problem we have to deal with. Do we run a loss that year or do we change the price of mail?

Mr. McHUGH. Assuming the \$500 million holds, let me ask two questions based on that. That is a \$450 million adjustment in your projection, roughly?

Mr. RUNYON. Yes.

Mr. McHUGH. What was the major cause of such a change? I mean, your volumes are down. Your revenues are up over projections. What is the dynamic at work here? Will it take a \$450 million plus on your net revenues from your plan?

Mr. RUNYON. Our volumes actually have all of a sudden started increasing.

Mr. McHUGH. Well, of course they always increase. They weren't increasing as much as you thought they should.

Mr. RUNYON. Yes.

Mr. McHUGH. Now they are increasing more than you thought they would.

Mr. COUGHLIN. Let me try to add to this. The latest accounting period, which I think was eight, we had all of a sudden a strong surge in First-Class Mail. In fact, I think we actually got \$200 million better than the plan in this accounting period eight. That's part of this sudden resurgence of revenue, which we have to see whether it holds, is part of it. There were also some adjustments that were made, some accounting adjustments that were clear that we were able to make that amounted to a couple hundred million dollars in the process.

And the fact is that expenses are running almost \$400 million better than plan. We've been able to hold those back and offset some of the revenue shortfall. We still do have a small revenue shortfall against our plan. But it's primarily on the expense side that this is occurring.

Mr. McHUGH. I am confused. How can you have a shortfall on your revenues if your plan just went from an expected \$55 million net income to \$500 million?

Mr. COUGHLIN. It's just two sides of the ledger. And we're doing much better on the expense side than we had expected. And we're not doing quite as—quite up to the original plan at this point.

Now, we could exceed it before the end of the year. Our projection does not anticipate it, but it's primarily on the cost side. It's almost exclusively on the cost side where we're doing better.

Mr. McHUGH. So, we haven't seen a great change in what you are handling and the kinds of business you have been doing?

Mr. COUGHLIN. Well, it's a little hard. See, the volume is actually up this year so far, 3.2 percent. That's a marked change from what we've been experiencing over the last few years and certainly over the last couple of years. Now, some of that is the result of the, is the result of the reclassification last year. It's had—it's had a—it's encouraged more of certain kinds of volume. It's also changed the revenue per piece, the mix of how much revenue we're getting per piece. At the same time, though, it's helping the system in terms of its efficiency. And that was the purpose of reclassification, to make the mail stream more efficient.

Mr. McHUGH. OK. Let me finish the second part of the question, and then I will yield to my colleague from Illinois.

The next logical question, at least in my mind, is, if you now have \$500 million rather than \$55 million, what are you going to do with that \$500 million?

Mr. RUNYON. We'll use that for capital instead of having to borrow money.

Mr. MCHUGH. I am sorry, instead of—

Mr. RUNYON. Having to borrow for our capital spending.

Mr. MCHUGH. I think I could probably go through the audience and find a lot of people who say, you know, what you ought to do with that revenue is forestall a rate increase to the greatest extent possible. There is a, no surprise to you, a real philosophical argument within the mailing community. Where does your first responsibility lie, to retire your outstanding debt or to keep your rates as low as possible and keep the system as affordable? So you now have \$450 million; you may have \$450 million more than you thought. Are you going to use it to retire your debt or are you going to use it to hold down rates?

Mr. RUNYON. Well, when you say "hold down rates," \$500 million would be worth about a third of a cent. And depending on what our need is, a third of a cent might do it. But, you know, unless we get much better than where we are right now, we're working looking for more than a third of a cent.

Mr. MCHUGH. Yes.

Mr. COUGHLIN. The \$500 million, Mr. Chairman, will become part of the asset base of the Postal Service at the end of the year, assuming that is what we make. It will be part of the equity asset base of this organization. It could be in the form of cash. It could be in the form of additional physical assets of some kind in the system. That's really what equity is in this situation.

Debt, on the other hand, our debt total is something like \$5 billion. All of it at this point is placed with the Federal financing bank, and there's a schedule for repayment of it. I don't recall off-hand whether any of it just calls for repayment this year. There are probably small pieces of it. But it is two different things we're talking about here. I know it's a confusing subject to talk about.

Mr. MCHUGH. No. I understand it. I mean, you have gotten agreement, or plan whereby, you are going to retire debt in a set number of years. And to do that, you have got to put a certain amount of cash toward the debt retirement.

The question becomes if you—and your plan provided for whatever your, your next year's requirement out of this, the end of this fiscal year's budget was, if you have \$450 million more than you thought you did, you have got more than your plan called for to do something. Either you are going to put it against debt or are you going to put it toward something else? And a third of a cent, I agree, is not up to where you need. But it is not chump change, either.

Mr. RUNYON. Absolutely.

Mr. MCHUGH. So you are not going to tell me. OK.

Mr. RUNYON. I thought we told him.

Mr. COUGHLIN. I'm not sure what we didn't tell you, Mr. Chairman.

Mr. MCHUGH. I think you know exactly what you didn't tell me. I would be happy to yield to, I believe, Mr. Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman. With that chump change terminology, you sound like you may have been to Chicago.

Mr. MCHUGH. I have.

Mr. DAVIS. Let me thank you very much, and I certainly want to thank you, Mr. Postmaster General, for being here with us this afternoon. And I would certainly concur with parts of your statement and others who have indicated that you have certainly made a lot of progress in the last 2 years. And I don't think that you have an awful lot to be ashamed of, but there is always, as we all know, room for improvement. And there is always an effort to move beyond where we are.

I think most of us would agree that two of the challenges facing the Service and facing the system is how do we improve management-labor relations while, at the same time, control cost? My question is: Do you view that as an inherent thorny area of difficulty or do you view it as something that can really be accomplished without the idea of winners and losers?

Mr. RUNYON. It will only be accomplished if we don't have winners and losers. That's, that's the big problem. In management-labor relations in any business that you're in, if you're going to have winners and losers, it's not going to work. You've got to have winners and winners. And we have to get more into that arena of working with each other to accomplish that. And we're working with the conciliation board at the present time, with the heads of the unions too, to try to accomplish that. They've outlined five things that they thought—let me tell you a little bit about how they went about doing this.

The conciliation board went around and talked to several people in each of the unions and the management associations and found out what they felt their problems were. Then they put all those problems together and they came to the Postal Service. They put all those problems together and came up with five things they thought we ought to be working on. And I can't repeat that at this moment, but I'll give you a copy of what those five things they thought we should be working on together.

We have set up work groups on three of those things. We haven't reached agreement yet to agree on—to work on all of them. I would like to work on all of them. I would. I think we should. We haven't reached agreement to do that yet. We need to reach agreement to work on those and then reach agreement to come up with solutions.

Now, one of the things that we had agreed upon to work on is the grievances, and we are working very hard at trying to change the way we handle grievances and try to get that out of a win-lose situation. So that's what's going on.

Mr. DAVIS. So three out of five, in terms of beginning to start certainly is not anything to scoff at.

Mr. RUNYON. Right.

Mr. DAVIS. So you are making progress—

Mr. RUNYON. Yes, sir.

Mr. DAVIS [continuing]. In that direction.

I also have some concerns about the whole question of the uniforms and the manufacturing of those and how we acquire them and where we acquire them. But I don't necessarily want to belabor

that point. I would just associate myself with the remarks and comments of the gentleman from Pennsylvania and let it suffice at that.

That is an area of concern that we certainly have some real reservations about in terms of what I am hearing and the way, at least, some of the manufacturers feel and some of the unions and some of the workers feel that it is headed. And so we will leave it at that.

The other question that I have is, in terms of affirmative action, and when I talk of affirmative action, I am really just simply talking about a playing field that kind of levels itself out and give small businesses, gives women-owned businesses, minority-owned businesses an opportunity to play in the big arena.

Could you share with us what the Postal Service's position is relative to that?

Mr. RUNYON. I would like Mr. Coughlin to answer that, if he could.

Mr. COUGHLIN. Yes, Mr. Davis.

When Mr. Runyon became Postmaster General in 1992, he put together—he broadened the whole effort in this area from what had been largely complaint processing and affirmative action to the diversity effort, which still incorporates or includes both of those elements but goes beyond that.

Emphasis is in four broad areas. One is the whole outreach effort to get more minorities and women involved in contracting as suppliers and potential suppliers of the Postal Service. The second is this whole area of training and development for supervisory employees. The third is the idea of creating opportunities for job growth and development for all employees at all levels. And most recently, there's been a considerable special emphasis, on the whole problem of sexual harassment in the workplace, with a considerable amount of attention and effort in that area.

I think we've had some success in the whole area of involving more minorities and women in contracting. I can supply the detailed statistics for you for the most recent years here if that will help you in that regard.

Mr. DAVIS. Well, I certainly appreciate your response, because I know that there are serious efforts in many quarters and in many places to take the position that there is not the need for this kind of activity, that we have reached a sufficient level. And I am not one who agrees with that. And I certainly want to commend you for recognizing what I consider to be one of the great needs that still exist in our country. And I commend you for it. And I would certainly want to see the absolute numbers. And I appreciate your testimony.

Thank you very much, Mr. Chairman.

Mr. MCHUGH. I thank the gentleman.

I have to yield to the gentleman from New York, Mr. Owens.

Mr. OWENS. Yes, I, too, don't want to be redundant but on the uniforms, I hope you will have more than one source and consider having a source from each region of the country. There are a lot of uniforms to be made. And I think that the value of the uniform as a piece of cloth can be enhanced in terms of a value in terms

of producing some jobs in these various areas, and I applaud your commitment to buy America policy.

On the question of training, I hate to keep bringing up the subject, but I just refuse to accept that there are available materials of a superior quality, and I can't get my hands on them. So I want to go back to that and ask, can you make available a copy of your training system, how it works, and the whole setup and some examples of what you use for training in terms of videos or film or whatever, because I have not been able to get my hands on very much in 2 years?

Mr. COUGHLIN. Mr. Owens, that kind of amazes me, because I must get two or three videos a week on my desk to look at that are part of my training system. I'll make sure you get more videos than you'll probably ever want to look at.

Mr. OWENS. Room 2305.

Mr. COUGHLIN. As well as a clear description of our training policy.

Mr. OWENS. Room 2305 in this building. And I appreciate that. And I won't bother you with the subject anymore.

The more difficult subject, however, is the matter of revenue service and employees that you talked about, revenue targets versus service targets. And I applaud the provision in the law which says that no post office should ever be closed down on the basis of revenue. I applaud the nobility of spending \$4 for \$1's worth of revenue if that has to be the case to provide postal service in certain parts of America.

My problem is that my constituents think that it has gone to the extreme in terms of they are subsidizing somebody somewhere. We have 2½ million people in Brooklyn; 2½ million people is large enough to have a First Class postal operation.

And first of all, we have a structure, which I talked to Postmaster General about. You have been kind enough to come to my office and talk about this so I am not going to go into the same kind of detail. But the feeling is that there is a tremendous profit being made, and this, you know, in the area where the density of the population is great, a number of people who are immigrants is great. They are sending mail all over the place. And, yet, our service is inferior.

You know, it goes around, it comes around. I have certainly tried with your postal employees at the local area level to work closer with them. And they are very nice people generally, the managers. I have no complaint about their attitude. They have gone to town meetings with me and talked about the problems to my constituents, so much that in the last election one of my opponents accused me of having sold out to the post office and trying to whitewash the post office.

So, you know, people feel very strongly about it, and their experience is, you know, frequent with the post office, so let's see if we can get to the bottom of—you know, Brooklyn service ought to be First Class service, because, after all, there are enough people that pay for it.

You talked, when I spoke to you earlier in my office, Mr. Postmaster General, you said you would check to see if you have profit centers, and you can tell me the revenue situation in Brooklyn ver-

sus the—the intake versus the outgo, and I wonder if you had a chance to deal with that and you have those figures?

Mr. RUNYON. I don't have the figures today, no, sir. We will give you those.

Mr. OWENS. But is it possible to get it by region, by area?

Mr. RUNYON. I'm looking now to see. We do not have revenue by area. It's very difficult to do. You see, what can happen is that we have some parts of the country where there are big mailers, big printers. They print up a lot of material, and they mail it. And the way they mail it is they take it to the BMC, which is a large area, and they give it to them. They send it to places like Brooklyn. They deliver the mail. The revenue for that stays where it is. Now, we're trying to figure out how to reallocate that revenue. It's very difficult to do. So we're trying to figure that out, how we reallocate that revenue so that we can have people have revenue goals. Because it's very important to me for people to have revenue goals. If they don't have revenue goals, how am I going to measure their performance? So we're trying to figure that out. But I don't think I—

Mr. OWENS. Well, you have some glitches here and there, but you can tell people send a lot of parcels in my district. I have 150,000 noncitizens—582,000 people in the congressional district, and 150,000 are noncitizens where there are relatives in West India and other places, and they are sending parcels all the time. So I suppose you can figure out how much the revenue for parcel sending is from the source, and you could break it down to certain—you can indicate how much flows out of various post offices.

Mr. RUNYON. It might be possible—yes, it might be possible to find out the total amount of revenue that you have in that area and also the total amount of expense. My guess is that the total, and this is only a guess, is that the expense would be more than the revenue. But we need to find that out, and I can find that out. I can't tell you.

Mr. OWENS. I don't know why you have to guess, Mr. Postmaster General, when you just said you have some post offices in the United States where you are spending \$4 for \$1's worth of—with \$1's worth of revenue, you are actually spending \$4. So you know that from some sources. Why is it difficult for Brooklyn?

Mr. RUNYON. Well, I can probably go and study every one of those post offices in Brooklyn and tell you that.

Mr. OWENS. I don't know if you can probably go. You already have—you have the data on the others.

Mr. RUNYON. No, we—

Mr. OWENS. Why don't you have the data on these? You have data on the small ones that are subsidized. Why don't you have data on all of them?

Mr. RUNYON. We don't have data on 38,000 post offices on what they're doing. We are right now starting a system for incentive pay by trying a new system in each post office, and we—I think we've got three post offices that are running this test. So that they run as a, as if they were an individual business. And we measure their revenue and their expense to see if we can actually measure a post office that way. So that, that we're doing.

Mr. OWENS. Well, I don't think that is hard. I don't think you need a rocket scientist to do that. You just made a very strong statement that you probably will find that the expenses are greater than the revenue. You just made a strong statement there. I challenge that statement. I say it is probably that the revenue is greater than expenses.

So how many days will it take for us to prove who is right and who is wrong? Can I get a commitment to have some kind of data, response?

Mr. RUNYON. I'll give you some data and response to that, yes, sir. You're asking me when. I'm not—I don't do the numbers myself. I need to have some financial people tell me. But I will tell you in 2 days how soon you can have it.

Mr. OWENS. Thank you.

I have been in this position for 15 years. Post offices have been an issue for all those 15 years. I have tried very hard to cooperate, and I will continue to try to cooperate, but I think I need to be able to give some hard answers to the people who ask those hard questions in my district.

I talked about the fact that we have an ongoing problem with the delivery of mail. And we found out at one point that you have a large number of casuals. Casuals are people who are paid half as much of the regular carriers. They have no fringe benefits, so they must make revenue—well, the costs go down when you have lots of casuals versus regular carriers, and the service, of course, goes down also because they really don't know what they are doing. They don't really care. And we have talked about that. And they insist that they have a large number of casuals.

When I talked to you, you had a figure that said about 5 percent, you know, but the people out there in any district said that they don't have regular mailmen the way they did 20 years ago. They don't have it, and they still don't have it even after I was promised that the casuals would be phased out completely.

You know 5 percent is still casuals, but they don't think it is 5 percent, they think it is much higher. And I get these complaints over and over again and it goes around and around. We think we have solved the problem, and then it comes back.

And I told you I think it is a management problem there in terms of Brooklyn has 2½ million people, and, yet, in your management structure, it was subsumed under a system and combined with Queens, which has fewer people. And the people in Brooklyn have to travel to Queens to get an application for a postal job or to get an interview. And there is something wrong with a structure which treats a place with 2½ million people, which would be the fifth or sixth largest city in the United States, if it was a city unto itself, as if it was, you know, a unit of something else.

So I won't go into all of that again. I just would like to have a response that gives me something to go back to my constituents with that I can say is concrete and we can have a dialog which is a reasonable dialog. Otherwise, you have got a revolution coming in Brooklyn demanding that our post office give us a whole new shake-up here. Thank you.

Mr. RUNYON. Mr. Owens, as a result of my visit to your office, I contacted Mr. Soloman who is acting in that area of capacity



there. He is trying to make an appointment with you to see you and come to your office and tell you the answers to some of those questions that you've asked.

Mr. OWENS. I look forward to that.

Mr. RUNYON. Yes.

Mr. OWENS. Thank you very much.

Mr. MCHUGH. Think of how tough he would be if he didn't roll over like his opponents.

We have run quite a while here, almost 3 hours and we all have other engagements, I know. I wanted to make two quick points. I know you heard Mr. Motley is and my exchange with respect to the GPRA and the need to have a draft document sooner rather than later.

Mr. RUNYON. Uh-huh.

Mr. MCHUGH. I think the GAO makes very cogent observations when they point out the possibilities that this process can bring toward healing all kinds of scars and wounds, not the least of which is at least putting us down the right path on some management-labor issues. So, I would only urge you to get that document out and available to the public and to your constituent groups as quickly as you can.

And, second, a question I asked the Board of Governors I will ask you. What is the status on pack and send?

Mr. RUNYON. The status on pack and send is that we did have it in 260 locations. PRC ruled that was a postal-related product and should come before them for pricing. We, as a result of that, immediately stopped the pack and send operation. We're now studying the pack and send operation to determine what we need to go back to our board with. So a decision hasn't been reached, but it will be reached in the next couple of months that we'll take to the board.

Mr. MCHUGH. The decision either to go forward with it or some—

Mr. RUNYON. If we go forward—

Mr. MCHUGH [continuing]. Or not?

Mr. RUNYON [continuing]. Then we have to go to the Postal Commission with the rate case. And we're looking at that.

Mr. MCHUGH. OK.

Mr. Fattah, any thoughts, comments, questions?

Mr. FATTAH. I think I have had enough for 1 day.

Mr. MCHUGH. OK. I thank you for being here, as always.

Gentlemen, thank you. We appreciate you being here. As I noted, Mr. Motley, we would appreciate the opportunity to file some questions, several which have to do with the great State of New York and the 24th congressional district. We look forward to your responses.

With that, the hearing stands adjourned.

[Whereupon, at 4:42 p.m., the subcommittee was adjourned.]

[Followup questions and responses and additional information submitted for the hearing record follows:]

MARVIN RUNYON  
POSTMASTER GENERAL, CEO



September 3, 1997

Honorable John M. McHugh  
Chairman, Subcommittee on the Postal Service  
Committee on Government Reform  
and Oversight  
House of Representatives  
Washington, DC 20515-6246

Dear Congressman McHugh:

In response to your May 13 request, enclosed are the responses to the follow-up questions submitted for the hearing record following my April 24 appearance before the Subcommittee on the Postal Service.

Deputy Postmaster General Michael Coughlin will respond separately to questions 2, 53 and 54.

If I can be of any further assistance, please let me know.

Best regards,

A handwritten signature in black ink that reads "Marvin Runyon". The signature is fluid and cursive, with a long horizontal stroke at the end.

475 L'ENFANT PLAZA SW  
WASHINGTON DC 20260-0010  
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**QUESTIONS SUBMITTED TO POSTMASTER GENERAL MARVIN T. RUNYON  
IN FOLLOW-UP TO THE OVERSIGHT HEARING ON APRIL 24, 1997**

1. In your letter to Chairman McHugh of March 21, you indicate that the Postal Service "inadvertently left out" the statutorily required discussion of USPS productivity and performance measurement of the Comprehensive Statement. Please explain how the Postal Service can "inadvertently" leave out such an obvious and important part of the Comprehensive Statement.

**ANSWER:** Inclusion of productivity data in the *Comprehensive Statement* is required by law. A full review of the reasons it was not included has determined it was, in fact, an inadvertent omission. The decision to forego submitting the figures was made at the staff level, and there was insufficient review at other levels of the organization to detect and correct the error.

The necessary steps to ensure all required information is included in future Comprehensive Statements has been put in place. I can assure you that every effort will be made to prevent a recurrence of the problem.

2. Earlier this year the Postal Service issued a plan to rectify the pay discrepancy for Postal Inspectors as required by the legislation we passed at the end of the last Congress. However, we understand that the actual pay adjustments are being delayed by a staffing shortage in the Human Resources office; for example, we understand that the same staff that is supposed to make the pay adjustments for 2,200 inspectors also are charged with establishing the Postal IG's new pay system. This pay adjustment no longer appears to be a high priority for the Postal Service. From your perspective, what is causing the delay in processing the pay adjustments as required under the legislation that is now 6 months old? When do you expect the pay adjustments to be processed? Will you make a commitment to detail within Human Resource additional staff, if necessary and feasible, to ensure that the pay adjustments are processed as expeditiously as possible while at the same time making sure that the Postal IG system is established and new hires are processed?

**ANSWER:** Deputy Postmaster General Michael Coughlin will respond to this question under separate cover.

- a. Earlier this year, Chairman McHugh submitted for your consideration on behalf of a postal inspector three retroactive proposals regarding postal inspector pay comparability. However, we have yet to receive any feedback on these proposals. Please provide your thoughts on these retroactive proposals.

**ANSWER:** Deputy Postmaster General Michael Coughlin will respond to this question under separate cover.

- b. Relatedly, if a postal inspector must retire before you implement the legislation, is he or she still covered under the new salary structure, or must they be on the rolls when it is implemented in order to benefit? We have been told that the pay adjustment will be retroactive to the date of my legislation, now six months old; is this accurate?

**ANSWER:** Deputy Postmaster General Michael Coughlin will respond to this question under separate cover.

3. In response to the GAO's report and recommendations on the growing revenue losses from Express Mail Corporate Accounts, the USPS raised the minimum balance requirements from \$50 to \$250 to maintain an account. We understand that this has caused consternation among some customers. GAO did not recommend a specific dollar amount or that this be raised, but rather suggested that the Postal Service could require individuals to present a valid major credit card

and appropriate identification to open an account. Thus, if customers overdraw or use a closed account, the Service could locate and collect postage from those customers. Why doesn't the Postal Service require applicants to have a major credit card to qualify for an account, in the same way that some of the Service's competitors (FedEx and UPS) offer corporate accounts only to customers who meet this condition?

**ANSWER:** We are taking specific actions in the area of Express Mail Corporate Accounts (EMCA). The opening balance has been raised, along with the minimum (advance) balance necessary to be maintained by each account holder. Finance has agreed to take over the responsibility for day-to-day management of EMCA. We will also be examining the processes used by offices that have been successful in managing EMCAs, and will share that with the field.

One effort of the new package pilot group will be to provide customers payment alternatives for their specific needs. The submittal of a credit card by the customer for a new account and to ensure payment will be considered.

4. What is the Postal Service policy regarding door delivery for both city and rural delivery routes? Under what conditions does the Postal Service decide to no longer provide door delivery on these routes? Does the Postal Service no longer provide door delivery on any new routes?

**ANSWER: Residential:** Current Postal Service policy for city and rural delivery precludes extending door delivery to new housing. The delivery options available are centralized units (cluster boxes), curbside boxes, or sidewalk boxes. There are only two exceptions to this policy: a) when a new home is built on a vacant lot within a block of existing homes, it will receive the same type of service as the older homes, and b) hardship cases where service by the existing method would impose an extreme hardship on an individual customer.

In 1978, the Postal Service established the policy that door delivery would no longer be extended to new residential dwellings which are on a newly developed street or in a new subdivision. Safety as well as economic considerations necessitated this change. Providing delivery service to the door of a residential dwelling costs the Postal Service \$243 per delivery annually compared to \$154 per delivery annually to provide curbside service and \$110 per delivery annually for centralized. As a result of eliminating door delivery to all new residential dwellings, we have significantly reduced our operating costs as well, reducing potential hazards faced by our letter carriers daily; i.e., dog bites, slips, trips, and falls.

The Postal Service will continue to provide door delivery service on city routes to those residential dwellings which already have this service extended, and to those new residential dwellings which are built within an existing block of older homes.

**Business:** Generally, the option of door delivery for businesses is still available for both rural and city routes. However, the business establishment must provide either a receptacle or door slot for the delivery of their mail when no one is available to receive the mail.

5. What is the status of the Postal Service's Electronic Commerce Initiatives? Please provide a list and description of each project in the Electronic Commerce initiative, along with a status report on the progress of the project to date and future plans. In addition, please provide the moneys expended to date on each of these projects and an overall total for postal moneys spent on the Electronic Commerce efforts. What are the Postal Service's future plans for projects and expenditures in this area?

**ANSWER:** We are in the process of rethinking our strategies for on-line services to incorporate a more tactical approach that will emphasize three elements:

- Advertising postal services through our web site.
- Providing convenient access to postal services through the channel of the World Wide Web.

- Testing applications that provide security and privacy for electronic correspondence and transactions as we do today for hard-copy mail, and which assist in binding the nation together.

In support of the third strategy, we are planning a limited market test of the Electronic Postmark for late summer or early fall. We previously conducted an operations test of this service. The service will offer:

- Confirmation by a trusted third party of a document's existence outside of its sender's control at a specific time and date.
- The ability to detect any subsequent tampering with an electronic transmission.
- A moderate level of security through the use of the Postal Service's private key.

We plan to include approximately 20 customers in this limited test. If it is successful, we hope to expand the test to include higher levels of security (e.g., unique digital signatures which can be used by each customer) and value-added services like those that are provided for hard-copy mail today (e.g., return receipt, certification, and delivery confirmation).

The USPS Board of Governors has authorized a ceiling expenditure of \$21.6 million. This figure reflects funds spent over the last 5 years on electronic commerce research and development and funds needed to conduct the limited market test of the Electronic Postmark.

- a. You are well into a testing phase for an Electronic Postmark for electronic or "e-mail" that will serve as a secure method of sending, and receiving e-mail and as an assurance that the person sending the e-mail is indeed the person in question through a digital ID. How much of your emphasis on the electronic postmark as a product offering is premised on your belief that you can offer the criminal protections of First Class hard-copy mail to this new medium?

**ANSWER:** We believe that our 200-year tradition of maintaining the sanctity of hard-copy mail provides us with a unique opportunity to offer this service to our customers. The August 14, 1996, proposed Federal Register notice also spoke to a number of other specific areas involving postal security. It states in part,

- "The Postal Service will preserve and protect the security of all Messages and Postmarked Messages in its custody from unauthorized interception, inspection or reading of contents, or tampering, delay, or other unauthorized acts. Any postal employee committing or allowing any of these unauthorized acts is subject to administrative discipline and may be subject to criminal prosecution leading to fine, imprisonment, or both."
  - "Interference by any person with the operation of Postal Service data processing equipment, including the Postmark Processor, is strictly prohibited."
- b. Do you feel there is any conflict in this area for the Postal Service due to the view that your success in the e-mail area will be based, at least in theory, on lower volumes and revenues on the hard copy side?

**ANSWER:** The Postal Service delivers approximately 180 billion pieces of mail each year. A segment of this mail volume is clearly at risk from electronic alternatives to hardcopy mail, whether or not the Postal Service participates in this new form of communication. It is unlikely for the foreseeable future that the Postal Service's electronic commerce initiative will have a significant impact on mail volume.

6. You recently provided an update of the management actions taken as a result of the Southern California Inspection Service review conducted in late 1995. While training and communicating goals to employees are important, a key ingredient appeared to be missing at the Area-wide level and in some of the specific locations, however: feedback from the employees on the quality of life on the workroom floor. What is the Postal Service doing both in Southern California and nationally, to ensure that it receives feedback from the employees on the quality of worklife issues, and how does the Postal Service act on this feedback?

**ANSWER:** As part of the "establish" phase of our CustomerPerfect! process for FY 1998, we decided to reinstitute a broad-based employee survey. This will go beyond the scope of the Business Information Survey which we have been conducting for the past two years to assess whether managers are communicating with employees about the organization's goals. We are still in the design and development phase for the survey process, but we expect to ask employees about key issues which relate to the quality of their work lives and their ability to participate in the success of the organization. We expect to begin these surveys the first half of FY 1998. As we have in the past with our Employee Opinion Surveys, we expect to provide action-planning tools to help postal managers work with the results of the surveys to improve the organization's effectiveness.

7. The Postal Service has been financially successful in the last three years and has finished those years with a surplus. What emphasis was communicated from headquarters to the field that you feel contributed to these successes?

**ANSWER:** The Economic Value Added program (EVA), which the Postal Service implemented in 1996 as a measure of its financial performance, has a pay-for-performance component as one of its key elements. A variety of EVA-related materials, including a video tape and brochure, were mailed nationwide to all participating employees to explain how the program works and emphasize the importance of each individual's contribution to the success of the Postal Service. Each month the Chief Operating Officer issued a memorandum of progress to date and the potential financial benefits to the employees if EVA goals are met. Also, an EVA module is included in the Strategic Focus Training being given to all employees in 1997. EVA heightens employee awareness that obtaining new customers, upgrading services to existing customers, and exploring new markets for new revenue will improve financial results. Operational efficiencies in the areas of cost control and cost reductions resulting from capital investments are also encouraged.

In addition, our Automation Cost Savings Model estimates that our labor savings and cost avoidance since 1987 has been \$8.4 billion in operations affected by automation; if the increase in allied labor operations is excluded, directly affected operations registered savings/avoidance of \$11.9 billion. Including the investment incurred during that period, this had an estimated 1.5 percent impact on total factor productivity during that ten year period. During the period FY 1987 to FY 1996, we had 6 fiscal years with positive total factor productivity and again expect to have positive total factor productivity in FY 1997.

These productivity gains and automation savings were made in the face of a mail volume growth of almost 19 percent over the same period, and a 14 percent increase in the number of possible deliveries.

We have also helped to build our business by emphasizing the importance of service performance. In particular, record EXFC scores have been recorded in Fiscal Years 1996 and 1997. Headquarters has facilitated this improvement by establishing systems which give the field daily feedback on service.

Another item that Headquarters has emphasized is the importance of safety. Our emphasis on safety has helped to control workers' compensation expense and improve the quality of the work environment.

Significant cost reduction programs were initiated by Headquarters. These include Remote Bar Coding Systems, Delivery Point Sequence Mail Sortation, Flat Mail Bar Code Readers, and Package Mail Bar Code Sorters.

Changes in management structures and management processes have also shifted emphasis. The creation of 10 Area Vice President positions has increased accountability, coordination and responsiveness to customer needs. Under our Customer Perfect! management system, Headquarters has been able to speak to the field with a clearer voice by operating through an annual management cycle – Establish, Deploy, Implement, and Review.

- a. Do you feel that management's emphasis on finances has in any way contributed to the concerns we have heard from employee associations and unions on the working relationships at local facilities?

**ANSWER:** I see no basis for drawing the conclusion that our successful emphasis on the bottom line has contributed to employee unrest. Most of our employees seem to understand the Postal Service is being challenged competitively in all its product markets. If anything, it appears our employees are proud of the recent financial successes the organization has been enjoying.

We are taking a balanced approach to the performance of our business. In addition to the financial, or Voice of the Business (VOB), we also focus performance improvement on the Voice of the Customer (VOC), and the Voice of the Employee (VOE). Our employees understand we face competitive challenges in all markets and products. Therefore, we need to focus on the customer needs, provide our employees with the tools to meet those needs, and our financial performance will result.

- b. As you are aware, the National Association of Letter Carriers has been placing public emphasis on accountability and stating that in many cases local mail delivery is actually slowing; to what do you attribute these concerns?

**ANSWER:** We attribute the public emphasis recently placed by the NALC on "accountability" to their national officers' response to a resolution passed at the city letter carriers' last national convention. This resolution was intended to create a national "Accountability Day" in order to focus attention on alleged management intimidation and discipline against letter carriers.

In an attempt to garner public sympathy, the NALC has repeatedly claimed that mail service has suffered through management interference, preventing letter carriers from providing on-time deliveries and fewer misdeliveries. These claims, however, remain unfounded. The real fact of the matter is that over the last several years, the Postal Service has experienced the best service and customer satisfaction scores ever, as measured by the independent firm of Price Waterhouse, while delivering an increased volume of mail with fewer career letter carriers.

As far as delayed mail is concerned, compared to Same Period Last Year (SPLY), delayed mail reports at Customer Service and Delivery Units show that the amount of delayed Preferential Mail (First Class), Priority, Standard (A), and Standard (B) Mail (Third- and Fourth-Class) has decreased by 44.4%, 28.6%, 30.8%, and 12.9%, respectively for AP 8 year-to-date (YTD).

The NALC's true concerns are that the Postal Service is processing more and more letter mail in Delivery Point Sequencing through automation, eliminating the need to have letter carriers manually sort (case) this mail in the office. This effort has reduced the city letter carrier work force by over 5,700 career carriers YTD to SPLY.

- c. We have heard from a number of Postmasters, who take umbrage to a quote they attribute to you that they or their offices "do not contribute to the bottom line" and therefore were not able to take part in the recent bonus payout that was granted others in the Postal Service. These Postmasters argue that while they may not be making money in their offices they are "touching the mail" and resent bonuses awarded to headquarters staff which do not. Would you share with the subcommittee your reasoning on this decision in light of the financial success you have experienced.

**ANSWER:** The decision to not include non-exempt employees in the FY-96 Variable Pay Program does not reflect a low opinion of the value that non-exempt employees provide to the Postal Service. On the contrary, all contributions to the success of the organization from employees, regardless of their specific position, are greatly appreciated.

The decision to not include non-exempt employees in the FY-96 Variable Pay Program was made after considerable analysis and discussion, including consultations with the management associations. The

decision is related to our business objectives outlined under the Postal Reorganization Act, which require the Postal Service be fiscally responsible in our personnel policies and to provide compensation that is comparable to that found in the private sector of the United States economy. The FY-96 Variable Pay Program was not extended to EAS non-exempt employees for several reasons.

Most private sector incentive plans do not include employees at non-exempt levels. Indeed, many are not as inclusive as ours, reserving participation for officers, executives and managers. Private sector companies have not moved as fast as the Postal Service in extending group incentive plans to the non-exempt levels of the organization.

Non-exempt employees are entitled to time-and-one-half overtime pay for extra time worked. This form of extra compensation is not available to many EAS exempt employees who spend long hours to make the Postal Service successful (although a form of "additional pay" at the straight-time rate is provided to those who supervise bargaining unit employees). Despite the fact that management works hard to control overtime costs, it is a matter of law that if a non-exempt employee works over 40 hours in a week, the employer must pay time-and-one-half for those overtime hours.

As evidenced by studies of private sector total compensation, salaries for postal non-exempt employees are already significantly higher than market rates for comparable jobs in the private sector. If we were to include the EAS non-exempt employees in the FY-96 Variable Pay Program, it would add to what is already an uncompetitive total compensation package. Management has a responsibility to address the pay and benefit premiums in order to achieve the private sector pay comparability mandate under the Postal Reorganization Act.

Despite the decision to exclude non-exempt employees from the FY-96 Variable Pay Program, a decision was made to provide a \$500 lump sum payment to full-time EAS career non-exempt employees in light of the extraordinary financial and service performance that the Postal Service had in FY-96.

- d. To what extent are you concerned with the fact that postal productivity has declined, for three straight years? How does this decline "fit" into the overall financial success the USPS has experienced in recent years?

**ANSWER:** We are concerned about the apparent decline in productivity during the last three years, however, we also believe that these occurrences should not be viewed in isolation.

Let's first look at our productivity scores for the last four years which were: FY1993 = +3.6 percent, FY1994 = -0.2 percent, FY1995 = -1.6 percent, and FY1996 = -1.4 percent. Retirement incentives were offered to postal employees in late 1992 as part of the major restructuring of the Postal Service. Not only did more employees than anticipated choose to retire but that number included many of our long-term, most experienced employees. As we endeavored to fill those vacated key positions and bring those new employees "to optimum performance," our service and productivity suffered.

It should be noted that customer satisfaction scores and service quality as measured by our EXFC scores have improved over this three-year period. However, the productivity results do not give us credit for this. Also, new programs which we have initiated to improve service, such as our Remote Barcoding System, require substantial initial investments in personnel and capital with the benefits accruing over the longer term.

During the last ten years Postal Service productivity has compared very favorably with that of the private sector (USPS = 0.24 percent vs. 0.16 percent). We believe that we have turned the corner and are moving back to positive productivity. Our future plans reflect positive productivity and, in fact, FY1997 year-to-date data show a positive productivity of 0.9 percent and indicate that we are on our way.

8. In response to a recent decision that your Pack and Send service was a "postal service" you announced that this service would be discontinued. Was this decision to cease offering this



service based on the Service's view that it could not price it competitively if it had to cover its costs? What was the reasoning that went into your decision in this area?

**ANSWER:** The decision to discontinue Pack and Send was in no way based on a pricing or market determination. That decision was made because the Postal Rate Commission, in response to a complaint brought by a coalition of commercial mail receiving agencies, expressed its view that the Postal Service was not authorized to offer Pack and Send without first seeking a recommended decision from the Commission. Although the Postal Service disagreed, and this disagreement was expressed by the Governors in their Decision of April 8, 1997, the service was discontinued to avoid further needless litigation.

Subsequently, the Board of Governors directed the Postal Service to study options regarding the establishment of a packaging service and, on June 3, 1997, authorized management to file a request with the Postal Rate Commission to establish a packaging service pursuant to the classification and ratemaking procedures of the Postal Reorganization Act (39 U.S.C. 3623).

- a. Did you give any consideration to offering this service in areas, perhaps rural area post offices, where the service is not being offered at all and you could price it in accordance with the law?

**ANSWER:** Determinations as to where to offer the service during the now-discontinued pilot test were made based on market demand and local management considerations, not on price. Please note that the Commission did not reach the issue of whether the prices charged were in accordance with the law; it opined only that the Postal Service could not offer the service at all without first obtaining a recommended decision from the Commission.

- b. You mention in your statement your view that the Postal Service Core Business Act of 1997, which is before the Subcommittee, would "freeze innovation and hamstring USPS ability to respond to customer needs." You have stressed many times the importance of the Postal Service's "core business" and its importance to the overall health of the organization. Why, would this legislation threaten the Postal Service and not simply allow you to bring your focus and attention to service to bear on this very important segment of your business?

**ANSWER:** Using Pack and Send as an example, we believe that this service is part of our core business. It is nothing new for postal clerks to help postal customers prepare their mailings. Pack and Send was an innovation in and an enhancement of a traditional area of postal business designed specifically to meet the expressed needs of our customers and to make our package mailing services easier to use. By not allowing such innovations, the proposed legislation threatens our ability to improve and maintain our core parcel mailing services as our customers demand.

9. Your last rate case was unique in that you sought the views of many of your customers before seeking it from the PRC and you settled on an almost across the board percentage increase. Have you entered into any of those types of discussions to prepare for this case and if so, what have you received in the form of input?

**ANSWER:** We discussed the rate increase proposal with our customers and have sought their input. However, it is worth noting that the fact that the Postal Service and many of its customers were able to settle their differences did not perceptibly affect the Postal Rate Commission's Recommended Decision. In fact, the existing process appears to encourage contention rather than cooperation.

In general, from our discussions we have learned that customers want smaller, more predictable rate increases. In particular, many customers have expressed a desire for the Postal Service to continue its efforts to develop a rate structure and rate incentives which better reflect our cost of handling mail. Finally, many customers have asked for more enhanced services such as those they see elsewhere in the market place. We believe that these are valid requests, and we are developing potential rate and classification structures that we believe respond to these questions.

10. We heard from several organizations over the past two years that have stressed that the Postal Service is "hooked" on volume and the desire to fulfill that need sometimes works to the detriment of the institution.

a. How much of a role does volume play in your long and short range planning?

**ANSWER:** Mail volume is a critical element of our planning process. It is impossible to budget and allocate resources without some idea of the amount of volume to be serviced. Personnel staffing, number and size of facilities, and transportation/delivery networks are just some of the issues which directly relate to volume.

b. Can you give us an idea of the balancing act that takes place at the Postal Service between securing mail volumes and your interest in revenues from other sources. In effect, is that the trade-off we are looking at in the long-term?

**ANSWER:** The Postal Service needs to have consistently growing volumes to support its delivery network which is constantly growing – volume and revenue growth is necessary to support network growth. We view mail volume growth and revenue from other sources to be complimentary, as we need more revenue to support and serve our customers. Our customers' needs are changing and we are responding to those developing needs. We attempt to focus on revenue generation opportunities that leverage our assets, human resources, and market presence as we respond to these changing needs.

11. Global Mail initiatives have been a success where they have been offered. However, there is some concern that you are using your government status to negotiate lower customs duties so that you can compete more directly with the private sector on the business side. Are the duties paid by the Postal Service less than private carriers pay in these countries?

**ANSWER:** The Postal Service does not negotiate the level of customs duties which apply to items sent through the mail.

There is a distinction, however, between the customs procedures which apply to commercial (private carrier) shipments and those that apply to mail. Commercial customs procedures require the preparation of a manifest, the inclusion of an invoice, and the use of a customs broker for items to be cleared through customs. Postal customs procedures use documentation affixed to the items by the mailer and are handled directly between the destination country postal and customs authorities without the use of a customs broker.

There is a reason for these different clearance procedures. Commercial carriers generally serve business shippers sending shipments to other businesses in another country. These shippers must provide the carrier with shipping statements including details of their shipment contents, and also permit the carrier to examine and verify the contents of the shipment. Commercial carriers are thus in a position to assume responsibility for the accuracy of the statements provided to destination country customs authorities and to pay duties on the basis of such statements.

Postal administrations generally serve household mailers and small shippers sending single or small quantity mailings to other households or small businesses. Most of these mailings will consist of non-dutiable letters and like materials, with a small proportion of merchandise. The postal administration of origin has no authority to open parcels from such senders or to verify the contents of parcels. For such mailings, therefore, postal administrations in neither the origin nor the destination countries are able to assume responsibility for the accuracy of customs declarations or to collect fees from senders and pay duties based on such declarations.

The commercial and postal customs clearance procedures each have advantages and disadvantages. Although the commercial process requires a broker and advance payment of duties, because shipments can be pre-cleared and duties paid in advance, they are generally not subject to delays for customs examination and determination of duty. Furthermore, the customs broker gives the private carrier more

ready access to customs authorities to resolve issues which may arise with a particular shipment. The Postal Service must seek the intercession of the destination postal administration, an additional layer of coordination which makes for a less expeditious process. Although the postal process does not require a broker or advance assessment of duty, postal items may experience delays in clearing customs because of the process of examination and rating for duty.

Regardless of the method of clearance, the rates of duty are the same.

- a. Where do you, or should you, draw a line between what some see as governmental advantage in a competitive market?

**ANSWER:** In the view of the Postal Service, it is to the advantage of shippers and mailers in the United States to have a choice of carriers and process to use according to what best meets their needs. Where some see a governmental advantage—e.g., no customs brokers or manifests—others see governmental disadvantage—no pre-clearance, items subject to delay while awaiting customs examination and rating for duty, and lack of the direct access to destination country customs authorities to resolve issues that commercial carriers have through their brokers.

At bottom, it is the differences in the types of shipments, with private carriers handling commercial shipments and postal administrations generally handling mailings from households and small businesses, that account for these different procedures.

- b. Distinguish for the Subcommittee the significant differences between Global Priority Mail and Global Package Link, particularly, as they relate to international commerce?

**ANSWER:** Global Priority Mail is an expedited single piece airmail service, available at all postal window outlets, providing fast, reliable, and economical delivery of all items mailable as letters or merchandise up to four pounds. This service is currently available to thirty-one countries.

Global Package Link is an air export bulk parcel delivery service that provides qualified customers with an easy way to ship large numbers of packages internationally. It saves customers time and money by having the United States Postal Service doing virtually all of the paperwork. There is a combined minimum volume requirement of \$10,000 of packages shipped annually to any Global Package Link country. Rates are based upon the number of parcels sent annually, with parcels in excess of a certain threshold, which vary by country, being subject to reduced prices. This service is currently available to seven countries.

12. Residents in Chairman McHugh's Congressional District have written regarding the difficulties with cluster mailboxes which under your policy, I understand, are required for new multi-unit developments. These boxes are unsheltered, in an area where snow is on the ground at least five months of the year and where temperatures often dip well below zero. Therefore, these residents frequently encounter frozen locks. Since I know there are other parts of the Nation as cold as northern New York, as the Postal Service received similar complaints?
  - a. How would you propose we resolve this situation so that these citizens, some of whom are elderly and disabled, can gain reasonable access to the mail which has been delivered to them?
  - b. Has any consideration been given to making, an exception to the cluster box rule in northern climates?

**ANSWER:** Postal Service policy is to promote the use of cluster boxes for all new developments (excluding apartment buildings), but not require their use. As managers in the field become aware of plans for a new development, they approach the designers/developers/builders to determine what considerations they have given to the mode of delivery for their new project. At that time, they provide

a detailed explanation of the delivery options which are available (cluster box, curbside, or sidewalk). The owners of the project have the option of selecting the type of delivery they feel will be the most compatible with the community they are developing.

Delivery to new apartment buildings is always to centralized delivery equipment purchased and installed by the builder. While the builder is required to purchase equipment from an approved manufacturer, there is no requirement regarding where it may be installed as long as it does not present a safety hazard for customers or delivery personnel. Generally, this equipment is installed in a wall inside the common entrance to the building. It is not always sheltered from the elements.

Some complaints have been received from customers in the colder climates regarding the frozen lock issue, but they are the exception rather than the rule. Postal managers have been provided with information on a variety of products which will eliminate this inconvenience to the customer. When a lock becomes inoperable, customers should contact their local post office for assistance.

13. At Chairman McHugh's request, the USPS has looked into complaints from two Upstate New York weekly newspapers relating to delivery problems experienced by their subscribers. These newspapers have a special role in rural and suburban areas and their timely delivery is of great importance to subscribers. Since we cannot imagine Upstate New York newspapers are unique with this problem, we would appreciate your advising the Subcommittee of the possible reasons, including the mixture of these periodicals with Standard Mail during processing. Could you advise me of your findings as soon as possible? We hope you will agree that it is reasonable to expect that these newspapers be delivered within a few days of their publication.

**ANSWER:** Processing and distribution standard operating procedures require that all processing facilities maintain a separate and unique mail flow for all periodicals. This uniqueness should be maintained during the processing, labeling, dispatching, and transporting. Only when periodicals reach the delivery unit should they be intermixed with other types of mail for delivery on that day.

In order to investigate and provide a specific explanation for an individual occurrence, more information is required. Information such as the name of the publication, mailing date, point of entry, and destination address is most helpful in identifying the problem described. If such information is available, please direct it to the Postal Service's Legislative Affairs office.

14. H.R. 407 would allow postal patrons to contribute to the funding for breast cancer research through the purchase of certain specially issued postage stamps, that would be sold for an extra cent over other stamps with the cent going to research. Would this extra penny be sufficient to cover the costs of issuing such a stamp? Would you provide the Subcommittee with your thoughts on such legislation?

**ANSWER:** With the passage of H.R. 1585 and the signing by the President Public Law 105-41, the Postal Service is establishing the Breast Cancer Awareness semipostal. This issuance will be in full compliance with the law. The Postal Service will continue to help raise awareness of significant public health issues.

15. H.R. 906 would provide for a reduced rate of postage for certain local government mailings which are required by law. What impact would this legislation have on other postal rates, particularly, if this reduced rate could not cover its costs?

**ANSWER:** H.R. 906 would require the Postal Service to establish a "discount presort first-class postage rate" for local governmental mailings that are mandated by Federal or State law, such as property tax statements, summonses, and jury-duty pay, for which no Federal or State funds are provided to local governments to defray the associated administrative costs. Although the bill does not state so explicitly, it appears to contemplate a further reduction in the presort rates for which local governments, like any other business mailer, may qualify by managing the volume and preparation of their mail matter.

The Postal Service is deeply troubled by the apparent rationale of this bill. To the extent that it would enable local governments to bear the financial burdens of mandated mailings, it would do so by imposing an equal unfunded mandate on the Postal Service and its customers. Rather than encouraging Federal or State authorities to moderate the burdens placed on local governments, or providing local governments with an incentive to cut postage costs by managing their mailing in the most efficient manner, this measure would simply "pass the buck" to the large but defenseless mass of postal customers. In a very real sense, it would be nothing more nor less than a hidden tax on postage.

From an enforcement standpoint, moreover, the bill is bereft of standards that postal employees might use to separate "mandated" from "non-mandated" local government mail. Indeed, to the extent that a local government mailing serves a necessary statutory purpose, it is at least arguable that such mailing has been "mandated" — or else the local government might decline to make the mailing. It accordingly appears that the Postal Service would be unable to place any meaningful limits on the use of the reduced-rate mailing privilege created by H.R. 906, unless it determined to involve itself intrusively and constantly in the regulation of local governmental affairs. That, it should be added, is an arena the Postal Service has no desire to enter.

The vagueness of this proposal also makes it extremely difficult to envision its ultimate cost to postal customers. It is clear, however, that these costs would ultimately be shared by non-government mailers, including millions of individuals who might never receive a "mandated" local government mailing. Imposing the cost of such a local government entitlement program on postal customers is inconsistent not only with the purpose of Postal Reorganization — and any other postal reform legislation designed to place the operations of the postal system on a sound businesslike footing — but also with the stated policy of Congress. Section 707 of the Revenue Forgone Reform Act of 1993, set forth in Title VII of Public Law No. 103-123, declares:

It is the sense of the Congress that any legislation, enacted after September 30, 1994, which would have the effect of expanding the classes of mail or kinds of mailers eligible for reduced rates of postage should provide for sufficient funding to ensure that neither any losses to the United States Postal Service nor any increase in the rates of postage for any of the other classes of mail or kinds of mailers will result.

The Postal Service respectfully submits that H.R. 906 is at odds with sound business principles and well-considered Congressional policy, and should not be enacted.

16. H.R. 37 would amend law to exempt veterans' organizations from regulations prohibiting the solicitation of contributions on postal property. What are your thoughts on H.R. 379?

**ANSWER:** The Postal Service has a long-standing policy of keeping our premises clear of charitable solicitations and other activities that would detract from the use of post offices for the transaction of business. We are unable to single out veterans' groups from among the many other fine charitable causes which might seek an exemption from this general rule. More importantly, the Postal Service does not wish to be placed in the position of policing the activities of charitable groups, and responding to related questions, complaints, or legal actions from postal customers or charitable organizations. We accordingly oppose the enactment of H.R. 37 and similar legislation.

- a. Similarly, what are your views on the proposal to allow the flying of the POW/MIA flag on postal property?

**ANSWER:** We have similar practical reservations concerning this proposal. Clearly, requiring the POW/MIA flag to be flown at every facility would have significant cost and administrative consequences. So, too, would opening postal premises to the display of flags belonging to other worthy causes and organizations. Rather than create disputes by granting exceptions, our policy is to limit the flags displayed at postal facilities to those of the United States and the Postal Service.

We believe it should be understood, however, that our reservations regarding this proposal do not reflect a lack of concern regarding the plight of the families of America's POWs and MIAs. With this in mind, we have produced two postage stamps that have served as a reminder of the sacrifices of these individuals. The most recent stamp, issued in 1995, brought the important message, "Never Forgotten", to millions of homes and

businesses in every corner of the world. This followed our previous expression of support in 1970, when we issued a postage stamp honoring prisoners of war and service members who were missing and killed in action.

17. Would you update the Subcommittee regarding its ongoing concerns that the 1994 GAO recommendations on labor-management relations are not being met and, in particular, the long discussed labor "summit" has yet to be convened? To what do you attribute relationships where even at the senior levels there are no discussions on these problems, and with this attitude, how can we expect improvements on the workroom floor?

**ANSWER:** The question incorrectly assumes that even at the senior levels there are no discussions going on regarding the problems identified in the 1994 GAO report. On May 20, 1997, Vice President for Labor Relations, Joseph J. Mahon, extensively briefed the Subcommittee on the Postal Service on the status of the summit. In general, it can fairly be summarized that for a long period of time the two largest unions resisted our invitation to come to a summit to discuss the GAO recommendations. After they were finally persuaded to meet for this purpose under the auspices of the Director of the Federal Mediation and Conciliation Service in September of 1994, numerous meetings have in fact taken place. However, despite a commitment to participate in discussion of a range of strategic issues, the union-designated work teams attending the meetings have not been empowered to discuss anything beyond grievance and arbitration issues.

18. During the recent hearing with the Board of Governors and the Inspector General, we discussed the concept of the application of whistleblower protections to employees of the Postal Service. I asked you about this proposal as a question for the record following a hearing in June 1995. Have you new or additional thoughts regarding this proposal?

**ANSWER:** We continue to believe that the application of the Whistleblower Protection Act to the Postal Service would not serve a useful purpose. Postal employees are already able to bring alleged abuses to the attention of their supervisor, the Postal Inspection Service, or the Inspector General. Postal employees are also protected against improper personnel actions by the collective bargaining grievance/arbitration procedure, and MSPB appeal rights for managers and supervisors. Adding another avenue for appeals would be unnecessarily burdensome, would complicate personnel actions, and might in some cases encourage abuses.

19. Regarding the Mobile Data Collection Device project (MDCD), we understand that the Postal Service has opted to use a non-wireless option in this project. Could you describe the reason for the decision of wired over wireless?
  - a. Would not a wireless MDCD option allow the USPS to be more competitive in the overnight delivery market, and would it not prove to be more cost-effective and provide a better return on investment?

**ANSWER:** The MDCD procurement is for a data collection device the Postal Service will use to support our Delivery Confirmation service and for programs to improve the efficiency and effectiveness of our delivery and collection operations. Our market research indicates that we can better meet the information and cost needs of customers of our Delivery Confirmation service if we do not incur the additional cost of wireless communications. Our delivery operations management systems do not require wireless communications.

- b. Please describe the MDCD project, its goals and objectives as well as the timetable for its use.

**ANSWER:** To meet our customers' requirements, the Postal Service intends to provide a low-cost, easy-to-access means for confirming the delivery of their mail. The MDCD will provide the tool letter carriers will use to collect Delivery Confirmation information. The Postal Service plans to begin deploying MDCDs this fall and complete the deployment of the devices early in 1999. The Postal Service plans to deploy management applications incorporating the MDCD beginning in the spring of 1998.

20. Regarding the interest identified during the hearing on the method by which postal uniforms are purchased, we appreciate your willingness to add a domestic content requirement into the new rules. Similarly, would you be willing to commit to insuring that postal uniforms are not produced in sub-standard, "sweatshop" conditions?

**ANSWER:** There has been concern expressed about postal goods being manufactured in sweatshops. While we are unaware of any existing manufacture of postal uniforms in such operations, it is important to note that any new system will have a domestic source requirement and will require any contractor or subcontractor to be in compliance with all U.S. labor laws, including the Fair Labor Standards Act and occupational Safety and Health Act requirements.

Plans to centralize uniform procurement are currently under review by Postal Service management and no final decision has been made. We will keep the Subcommittee apprised of any developments.

21. There has been some concern presented to the Subcommittee regarding the Postal Service representing the U.S. Government internationally. Section 407 of Title 39 says that the Postal Service, with the consent of the President, may negotiate and conclude postal treaties and conventions. Please provide a copy of this delegation of authority to the Subcommittee.

**ANSWER:** There is no specific document delegating authority to the Postal Service. Since the enactment in 1851 of the predecessor statute to section 407, it has been the position of the President and postal authorities that the statute does not require the affirmative consent of the President, or that consent be given in any particular manner. The Government's view has been that the failure of the President to object to the establishment of international postal rates and other charges is consent to the establishment of such rates and charges. The Postal Service, moreover, coordinates its international activities with the State Department as the President's representative for foreign affairs; and the delegations to meetings of the Universal Postal Union are approved by the State Department. The President also approves any treaties or conventions that are concluded.

22. How can you make sure that the mail of a "nonprofit" postal customer is eligible under postal rules?

**ANSWER:** When a nonprofit customer presents a mailing for acceptance at the Nonprofit Standard Mail rates, it goes through an acceptance procedure that includes verification of sortation, review of the mailing statement and a review of the mailpiece itself. However, it is not always possible to detect an improper mailing at the time of acceptance, particularly because the decision whether a mailing is eligible for the nonprofit rates sometimes cannot be made on the contents of the mailpiece. For example, under the cooperative mail rule, the mail must be solely that of the nonprofit; and, decisions in these instances can only be made after examining contracts or other evidence of the relationship of the parties to the mailing. Postal customers are encouraged to discuss their mailings with acceptance personnel before they are presented for acceptance to ensure compliance with requirements.

23. How many cases of ineligible nonprofit mailings were decided in 1996? During that same time, how much revenue was collected from ineligible nonprofit mailings?

**ANSWER:** There are over 33,000 post offices, any one of which may have received a questionable nonprofit mailing. Sometimes the local post office detects an improper mailing, charges the higher regular rate, and the decision is not appealed. Others are appealed to the Rates and Classification Service Center (RCSC) for a final agency decision, but may involve only the eligibility of the piece for nonprofit rates and not a dollar amount for the mailing of such material. Cases involving revenue deficiencies which are appealed are initially decided by the RCSCs. The final agency decision is made by the Manager, Business Mail Acceptance at Postal Headquarters. I can tell you that the Postal Inspection Service reported 17 cases to postal management involving questionable nonprofit mailings made during 1996. The amount of deficient postage for those cases totaled \$233,966.16. Management would then make a decision whether to assess additional postage based on the Inspection Service

findings. Those cases may or may not have been assessed and/or appealed before collection efforts would be undertaken.

24. Who is charged with the responsibility for deciding USPS interpretations of nonprofit eligibility, and is there coordination and uniformity of decisions between facilities, offices and employees?

**ANSWER:** The Manager, Business Mail Acceptance, Postal Service Headquarters, sets the policy for the administration of the nonprofit eligibility requirements and issues the final agency decision concerning the eligibility of a mailing to be sent at the Nonprofit Standard Mail rates. Initial appeal decisions are made by the Managers of five regional Rates and Classification Service Centers (RCSCs) under the jurisdiction of the Manager of Business Mail Acceptance. Much effort is invested to ensure uniformity of decisions between regional and local offices. Training, as discussed in the answer to question 26, is ongoing. The office of Business Mail Acceptance circulates Customer Support Rulings to large post offices, regional offices and many customers (this information is also on the Internet). Periodically, Business Mail Acceptance holds meetings with field personnel to ensure consistency between RCSCs.

25. What prompted the 1996 revisions of USPS Publication 417 that now include a "no adjective rule" in evaluating the eligibility of a nonprofit mailpiece?

**ANSWER:** Publication 417 was updated as a result of Classification Reform to include new terminology (i.e., Nonprofit Standard Mail versus the outdated Special Bulk Third-Class). The opportunity was used to enhance examples of mail which is eligible for the Nonprofit Standard Mail rates. The so-called "no adjective rule" concerns the exception for permissible reference mailings at the Nonprofit Standard Mail rates. That exception, which is based in statute, exempts certain references to membership benefits from the advertising prohibitions on nonprofit mail, as long as advertising, promotional, or application materials for such services or benefits is not included. The example in Publication 417 at issue is on page 35 under section 6-3.3.7, concerning impermissible references. That example makes clear that the use of favorable terms such as "low cost" and "competitive" to describe available life and dental insurance coverage is considered "promotional" as used in the statute and, therefore, does not allow the mailer to take advantage of the permissible reference exception. The example is consistent with previous interpretations of the same rule dating back to the effective date of the regulation which was September 13, 1991. It is also consistent with other examples concerning advertising or promotional language located elsewhere in Publication 417.

26. What type of training on these changes does USPS offer to its nonprofit customers and to the USPS personnel who process nonprofit mail, and how does this training compare to the training and education effort which accompanied Classification Reform?

**ANSWER:** When new restrictions concerning the content of nonprofit mail became effective in September 1995, an extensive training effort was undertaken to ensure that postal personnel and customers were advised of the new rules. Postal Service Headquarters worked closely with the National Federation of Nonprofit Mailers to put on a series of national seminars. Headquarters has also worked closely with the Alliance of Nonprofit Mailers, including joint participation in training sessions such as MailCom in Atlantic City. Twice each year, Postal Service Headquarters conducts a nonprofit session at the National Postal Forum. When new restrictions on advertising were introduced in September 1995, national training sessions for managers were conducted in Washington, Denver and San Francisco. Headquarters has participated in training sessions for postal inspectors as well as sessions for the D.C. Bar Association and the American Bar Association. The RCSCs routinely conduct training for acceptance managers in their areas. Other training consists of local focus groups and postal customer council meetings, as well as periodic national training for Business Mail Entry unit managers who in turn conduct local training. Two editions of Publication 417 have been published since September 1995. Before introducing the first edition, postal officials met numerous times with industry representatives to discuss content, format, examples, etc. As noted earlier, a second edition was published as a result of terminology changes associated with Classification Reform. These training efforts are very similar to those which accompanied Classification Reform.



27. In addition to the recent GAO report on post office closings, as you are probably aware there have been some critical news items recently on post office closings and the effect on a community. As you know, the GAO's review of post office closing data shows that the closings affect what is truly small town America. For example, the closings for fiscal - years 1995 and 1996 occurred in communities with an average population of 206 citizens, 6 businesses, and a post office that averaged 13 transactions per day and operated at a loss. The 1970 Act requires that no small post office be closed solely for operating at a deficit, and the 1976 amendments to the Act stipulate that the USPS "must consider" effects on the community served, postal employees, and postal services, as well as economic savings to the USPS. In addition, the law requires that the USPS must provide customers its written proposals, findings, and their appeal rights; customers may appeal a closure to the Postal Rate Commission.
- a. To what extent does the current closure process truly provide an affected community the opportunity for their views to be "considered?" In light of some of the negative news items of late that demonstrate communities' concerns about not being heard, how can this process be improved? Some have suggested that an affected community's concerns must be more than "considered" and instead must be respected. How do you respond to such a suggestion?

**ANSWER:** The Postal Service is giving customers of affected offices multiple opportunities to express their views on the possible discontinuance of a post office. The Postal Service conducts community meetings, provides questionnaires to all customers in the community and maintains a supply of questionnaires at the service window for retail customers. The proposal to close or consolidate the post office is posted for a 60-day posting period. Regulations require the posting of a final determination to close or consolidate a post office, which informs customers how to appeal that determination to the Postal Rate Commission. Customers' views and concerns are looked upon with respect at all levels of the Postal Service; they are always considered, and, where feasible, addressed by mitigating or eliminating the concern. The current procedure provides ample opportunity for input, requiring responses at every step of the process.

The recent negative press reports of which we are aware involved relocation of post offices, rather than discontinuances, and those procedures have now been modified to provide greater opportunity for, and consideration of, public perceptions.

- b. Does the Service find out whether the communities with closed post offices are satisfied with the alternate mail service provided after the closing? Have you ever found a case where closing the post office was a mistake from a community service standpoint? If so, did you reopen that post office?

**ANSWER:** A 1975 GAO Report to Congress stated that service provided to customers does not suffer. GAO interviewed citizens of 32 rural communities in 28 states where the Postal Service had recently closed small post offices and provided alternate mail service. Nine of every ten customers said that mail service was at least as good as, and in a number of instances, better than before the changes. Elderly customers who began to receive home delivery as a result of a change were especially pleased. It is the opinion of postal officials that this statement is still accurate. Recent postal customer questionnaires from suspended offices indicate that customers rated their service favorably since the suspension of the post office. We are unaware of any finalized discontinuance case where the Postal Service did not provide customers with effective and regular service. By law, the Postal Service cannot discontinue a post office unless effective and regular service is provided to the affected community. Postal Service Headquarters receives from the field discontinuance cases in which a proposal, but not a final determination, has been posted. In some cases, Headquarters later returned a case to the field based on the conclusion that the discontinuance was not warranted or the proposed replacement service was inadequate. Customer concerns are examined closely at this stage of the discontinuance process. Some such offices were later discontinued in favor of more appropriate replacement service, while others were not.

- c. As you are aware, some of the concerns raised by communities in the news relate to post office relocations within a community rather than a closure. Many view the Postal Service operations as integral to the survival of downtown America. Similarly, many view that wishes of the local community must be respected when even considering a relocation. To what extent should the Postal Service be required to consider the views of the community when considering a relocation as well as a closure?

**ANSWER:** The Postal Service takes seriously its status as a member of virtually every community, neighborhood, town, and city in America. It has long been national policy that new, expanded, or relocated facilities are brought to the attention of local officials whose views are sought in the planning process. Although this policy is not mandated by statute, it is enforced by the Postal Service and has been widely successful in maintaining cooperative and mutually beneficial relations with communities of all sizes and types. The Postal Service would oppose expanding the procedures concerning the closing or consolidation of post offices to include the relocation of a facility. We believe that such action would destroy the possibility of a quick, amicable resolution of matters through open discussions between postal officials and local officials, and substitute an adversarial relationship. Indeed, it could bring an unfortunate close to a long history of successful discussion and compromise regarding new or remodeled post offices, which would not benefit the Postal Service or its customers.

- d. How does the Service consider the economic impact of moving a post office within a community, or the economic impact of closing a post office?

**ANSWER:** In relocating a post office, every effort is made to remain in the general area of the current facility. Sometimes, this is not possible and the Postal Service has to move outside the city's established boundaries. In many discontinuance studies, the post office is the only business in town and the other businesses have been closed for a significant period of time. Part of the postal customer questionnaire asks whether customers will continue to patronize local businesses if the post office were closed. Additionally, we ask the customers where they shop, socialize, work or bank. Generally, we find that customers do their shopping, banking, socializing, etc., outside of the community because of the lack of businesses in town. The Postal Service considers these factors as part of a discontinuance study to determine whether they militate in favor of, or against, a proposed discontinuance.

28. Should there be special rules when dealing with the relocation or closure of a building that is registered with the National Trust for Historic Preservation?

**ANSWER:** No. A vast majority of post office closings are in rural or unincorporated areas and there is little indication historic or cultural resources are adversely impacted by such closings. The Postal Service currently complies with provisions of the National Historic Preservation Act (NHPA) and the Advisory Council on Historic Preservation (36 CFR 800). These procedures are applicable to all Federal agencies. The Postal Service believes these regulations are more than adequate to protect historic and cultural resources eligible for or listed on the National Register of Historic Places.

If a post office is to be relocated and it is eligible for or listed on the National Register, postal procedures also require full compliance with, specifically, Section 106 of the NHPA. This is a standard federal process to mitigate any adverse effect, either direct or indirect, the relocation may have on a historic district, site, building, object, or structure.

- a. How many buildings does the Service own or lease that may have historic value?

**ANSWER:** The Postal Service has in excess of 1,000 buildings listed on the National Register of Historic Places. The majority of these were nominated by the Postal Service over the past twelve years. With the exception of the National Park Service, it is the largest number of properties listed on the National Register by any Federal agency.

- b. How does the Service consider the historic value of these buildings when deciding to close a post office?

**ANSWER:** If a post office is to be closed and it is eligible for or listed on the National Register of Historic Places, postal procedures require compliance with the general provisions of Section 106 of the National Historic Preservation Act. This is a standard federal process to mitigate the adverse effect a closing may have, either direct or indirect, on a historic district, site, building, object, or structure.

c. What is the Service doing to protect the historic value of these buildings?

**ANSWER:** The Postal Service has an ongoing program of compliance with historic preservation procedures. If a new postal facility is to be constructed or an existing facility is planned for maintenance, renovation, expansion, or disposal, we comply with the Secretary of Interior's Standard for Rehabilitation and the provisions of the National Historic Preservation Act.

The Postal Service presently checks with the historic register to see if the facility is listed when we review an office and what effect the discontinuance would have on the facility. Customers and local postal officials typically bring to light the historical significance not only of buildings but also of the community, post office, and surrounding area during the course of evaluating the impact upon a community in a discontinuance study. We follow up on the information provided to us by the customers.

29. One way in which the Postal Service can close a post office is through an emergency suspension of a post office's operations, such as when a lease is canceled, damage to the building, occurs, or loss of the postmaster. Under this emergency suspension process, the Postal Service has 180 days to decide whether to enter the normal closing process (which then makes it subject to the full notice, comment, and appeal process for the community) or to keep it open. However, I understand that in some cases a post office remains closed through emergency suspension for many years; for example, the recent GAO report found that 23 post offices have remained in emergency suspension status for more than 10 years.

a. Why do some post offices remain in emergency suspension status for so long? How do you respond to the concern from some communities that the Postal Service uses its emergency suspension authority to close a post office but avoid having to go through the community notice, comment, and appeal process? In other words, can keeping a post office in emergency suspension status for years be said to prevent citizens from appealing to the PRC what is for all practical purposes a closure?

**ANSWER:** The discontinuance process is very lengthy (18 to 36 months) and postal policy and law must be followed. Some discontinuances are more complex than others and require more community interaction and feedback. All offices, whether they are suspended or not, must go through the discontinuance procedure to be officially closed, and customers will have an opportunity to express their concerns and appeal a final determination. We have focused new resources upon the accumulation of older suspensions. GAO recently identified 150+ offices that have been suspended for 5 or more years; the Postal Service has asked the Area Managers to prioritize their processing. This may lead to a temporary increase in discontinuances, but should eliminate the older cases. The fact that operation of some offices has been suspended for many years is probably due to a number of reasons. These include the facts that suspension can be authorized by field officials, while discontinuance requires Headquarters approval, and that turnover in personnel, with the wave of retirements in the early 1990s, both stalled and forestalled discontinuance studies. The Postal Service believes that the steps recently initiated with Area Managers will eliminate this problem.

b. How are communities notified that their post office has been suspended? Do the communities with post offices in emergency suspension status have avenues to express their concerns with the Postal Service?

**ANSWER:** Customers are normally notified by letter that the post office will be suspended, the reason for the suspension, the date of suspension, the alternate service provided, and who to contact for questions. In some instances the Postal Service does not have time for advance notification so a

notice is posted at the post office and customers are notified individually at a later time. Under the discontinuance process, customers of suspended offices have the same avenues for expressing their concerns as customers in operational offices.

- c. What is the Postal Service doing to reduce the backlog of 470 post offices that GAO found remaining in emergency suspension status?

**ANSWER:** In addition to the steps identified in response to question 29a, the Postal Service conducted comprehensive training for several hundred field officials that, in addition to providing standardized materials and lessons in the "do's" and "don'ts" of discontinuance studies, emphasized the necessary link between suspensions and discontinuance studies when operation of the office is not resumed. The concurrent establishment of a reporting requirement upon suspension of an office's operation has added accountability to this link.

- d. How long do you believe that it is appropriate for a post office to remain in emergency suspension status? Is there some way for the Service to speed up this process so that customers know sooner if their post office is going to stay closed or be reopened and when? Should there be a legislative mandate that limit emergency suspensions to no longer than the 180-days in which time a decision must be made whether to officially close or reopen?

**ANSWER:** The length of time the operation of a given post office ought to be suspended is not amenable to specific, fixed limits because local conditions necessarily vary from case to case. This is why suspension authority is vested locally. If an office is suspended and later discontinued, the Postal Service would prefer that such final action be completed within 2 or 2 ½ years to allow for proper completion of a discontinuance study. Since discontinuance studies can easily require 18 to 36 months (see the response to question 29a), a 180 day limit on suspensions would be wholly unworkable.

30. To what extent, if at all, should community views be considered when closing a contract post office?

**ANSWER:** Contract post offices (CPOs) are generally not closed if they retain any operational vitality. Indeed, the most common reasons for closing a CPO are the substantial absence of customers or any qualified bidder — which tend to occur together. Since the customers of a CPO are generally aware when the lack of a bidder threatens continued operation, any subsequent closing is not a surprise. Unlike other types of contractor-operated postal facilities, discontinuance of a CPO requires Headquarters approval. Such approval is usually based upon a written record that includes customer input garnered from questionnaires, and community meetings. As such, decisions to close CPOs are based upon customer input comparable in many respects to input obtained when discontinuing a post office. If customers are opposed and an appropriate bid and bidder are located, the CPO would not ordinarily be closed.

31. How long does it take for the Service to close a post office? What is a reasonable amount of time to take to formally close a post office?

**ANSWER:** The GAO reported that it takes an average of 4.1 years to complete the post office discontinuance process, although the median time is likely somewhat less since only a few have taken substantially longer. While the Postal Service would like to see a study completed within 2 or 2 ½ years, the extensive steps required of any discontinuance study mean that 2 to 3 years is likely to remain the minimum time required for the foreseeable future.

- a. GAO reports that many Service decisions to close were prompted by postmaster retirements, promotions, transfers or resignations. It would appear reasonable to suspect that some of these events could have been anticipated. And if these events could be anticipated, perhaps the time taken to close could be reduced somewhat from the 4 years found by GAO as the average amount of time to close a post office in 1995 and 1996. Does the Service maintain such a list of potential closures? If no, why doesn't the Service maintain such a list?

**ANSWER:** In cases where the Postal Service knows ahead of time about the retirement, etc., of a postmaster, the review is often started; the recent training and management steps identified in response to other questions are intended to increase the frequency of such forethought. While those generically opposed to closing post offices have insisted that the Postal Service maintains a secret "hit" list of targeted offices, there is no such list; indeed the logistics of establishing and maintaining such a list would make it an administrative nightmare. The primary barriers are the division of decision-making authority and the volatility of any such list. In particular, district managers are given the authority both to initiate discontinuance studies and to approve the posting of a proposal to discontinue. Some offices for which a study is authorized are not subsequently approved for posting of a proposal. Maintenance of a target list would thus require district managers to make a third decision: whether an office should be removed from the list and, if so, when. These decisions would then need to be rolled up nationally to produce a list. A decision to post a final determination to discontinue an office, on the other hand, may only be approved by Headquarters, and as previously indicated, approval is by no means automatic. Given these means of managing the discontinuance process, the Postal Service believes this process serves the needs of both postal managers and the public while fully complying with the statutory, regulatory, and public interest obligations. Since maintenance of a target list would offer no assistance in meeting these obligations while adding unwarranted administrative complexity, the Postal Service does not currently maintain such a list, and has no future plans to do so.

- b. What happens to postmasters whose post office is suspended due to a disaster or safety hazard?

**ANSWER:** Ordinarily, such postmasters would serve as the key operational officials assuring the continued provision of postal services to customers whose office is affected, whether they do so out of their garages or neighboring facilities. In effect, they receive temporary reassignments. By the time an office is ultimately approved for discontinuance, the employee will have been assigned or transferred to a new position, within ready commuting distance.

32. As you mentioned in the hearing, the Office of Government Ethics recently informed the Postal Service that the Service had addressed the Office's long-standing recommendations. As the GAO noted, since 1991, the Office has made six reviews of the Service's ethics program because of long-standing and ongoing concerns; typically, executive branch agencies are reviewed once every 5 years. Why did it take so many years to finally address the concerns of the Office of Government Ethics regarding the Postal Service's ethics environment?

- a. How does the Postal Service oversee its ethics environments. For example, who is responsible for administering the program and how is the program implemented?
- b. What actions have you personally undertaken as well as carry out on a regular basis to demonstrate strong management support for the Postal Service's ethics program, particularly ethics awareness among purchasing personnel?
- c. What kind of staff resources, including number of employees, are devoted to administering the Service's ethics program?
- d. How can you assure the Subcommittee that your actions to comply with the long-standing Office of Government Ethics recommendations will finally ensure an improved ethics environment?

**ANSWER:** We believe that these matters were addressed fully in the 12-page discussion of the Postal Service's ethics program provided for the hearing record. Another copy of that document is provided as Attachment I, along with the March 6, 1997, letter from the Office of Government Ethics indicating that their recommendations have been implemented and their review concluded. Ethics will continue to be an important focus of attention in the Postal Service.

33. How would you view the Postal Service's progress in implementing the Postal IG legislation? What problems, if any, do you believe have been encountered in implementing this change?

**ANSWER:** The Postal Service has worked very closely with the Inspector General since her appointment and has moved as quickly as possible toward implementing the Postal IG legislation. Many meetings of functions related to the implementation have been and continue to be held, and an air of urgency has been pervasive at all of these meetings. Most of the problems encountered revolved around the difficulty of adapting the Postal Service's complex payroll and Human Resources Information Systems to process the IG's hybrid of GS and postal pay systems. Developing an accurate automated system involves major system changes, which are being tackled as quickly as possible. As the Office of the Inspector General continues to determine its business requirements for unique IG pay and benefits packages, Payroll and Human Resources Information Systems are investigating what alterations these two existing systems will require. The Postal Service is also evaluating purchasing third-party approaches for processing IG personnel actions and payroll. Until processing for the new pay and benefits packages can be fully implemented, IG employee schedules are being hired and paid under the existing Postal Service Executive Administrative Schedule (EAS). This issue has not restricted the IG's ability to hire personnel.

- a. To what extent have you ensured that the Postal Service is meeting all space, budget, and logistical needs of the Office of Inspector General?

**ANSWER:** After the discussions with the new Inspector General, the Governors, at their March 1997 meeting, approved a \$5 million, 60-day interim budget for the new Office of Inspector General (OIG). The purpose of this interim budget was to allow the Inspector General adequate time to prepare a budget for the current fiscal year. The Inspector General subsequently submitted a Fiscal Year 1997 budget request of \$19.2 million. The Governors approved Fiscal year 1997 budget for the OIG at their April 1997 meeting.

With respect to space and logistical needs, our Facilities office has been working with the IG for several months to determine their space needs for the Headquarters operation and their Eastern and Western Duty Stations. Working with the IG proposed hiring plan, they have developed space needs according to the number of people, function and date needed. To date, we have provided space for the IG and her immediate staff in Headquarters, and have leased space in the L'Enfant Plaza North Building for over 125 of her Headquarters staff. In August 1997, according to her hiring plan, we will need additional space for her Eastern Duty Station and the remaining Headquarters staff, who will be hired between now and early 1998. We are securing temporary space to be available in August, and are working to finalize long term space for both functions. The IG recently advised of the need for space for her Western Duty Station. We are developing a list of possible sites which would meet her requirements and will present them for her review in the next few weeks. Facilities personnel meet with the IG regularly to assure that we remain on schedule to provide space as required.

34. The GAO reported on several occasions last year that the Postal Service's internal controls were seriously inadequate in purchasing, protecting the privacy of address changes, the acceptance of bulk mail, and Express Mail corporate accounts. In 1994, the GAO reported on weak controls over postage meters. Further, although the Postal Service committed to corrections in all of these areas, the Service experienced a major cost overrun in the marketing budget this past fall. According to the Postal Inspection Service, part of this latter problem resulted from the Controller agreeing to waive the normal review over Marketing expenses. With this system or monitoring, the Controller permitted individual line items, such as advertising and promotions, to go over budget as long as total expenses were reported to be within the budgeted amount. The result was that Marketing overran its budget by \$46 million. What are you doing to demonstrate strong management support for improving the internal controls to protect revenue and oversee spending in the Postal Service? What assurance can you give this Subcommittee that the magnitude and frequency of problems in this area will diminish?

**ANSWER:** One of the GAO reports cited was issued in January 1996, titled Conditions Leading to Problems in Some Major Purchases. The report addressed 7 purchases, made over a span of 8 years, 4 of which had been studied in earlier reports, and found that the problems occurred not because of a lack of proper control and oversight, but rather because of "poor judgment and decisions to circumvent existing internal controls to meet perceived operational exigencies." As GAO also noted in the report's conclusion, "We believe that the changes that the Service has made to improve major acquisition integrity are steps in the right direction."

These steps cited by GAO include the consolidation of what had been three independent purchasing organizations under the authority of the Vice President, Purchasing and Materials; assuring the independence of purchasing personnel from the organizations specifying contract requirements; ongoing efforts to improve our purchasing policies (which have most recently led to the issuance of our new Postal Service Purchasing Manual (PM), and which we will discuss further in response to the question below); and continued emphasis regarding standards of ethical conduct.

In his response to the report, the Postmaster General noted that the purchases studied were a small percentage of the total made during the 8 years, and that they resulted not from defects in our purchasing policies but from officials choosing to deviate from those policies. The Postmaster General also noted many of the efforts we have taken to ensure the proper amount of management oversight while maintaining the efficiency and effectiveness of our purchasing operations.

In a more general sense, we believe that our policies combine the efficiency of private-sector purchasing with the commitment to fairness and accountability expected of a public agency. We also believe that providing contracting officers the discretion to exercise their business judgment, reinforced by management control and oversight, is the best insurance that our purchases are conducted fairly, and that purchasing-related decisions are made based on the business and competitive objectives of the Postal Service.

One of the problems relating to corporate advertising is the time lag between contractors rendering service and actually submitting bills, in addition to the fact that business with the largest advertising agencies was not being coordinated. Several steps have been taken to address this problem: 1) the Department of the Controller worked with Marketing to install an expense tracking system to track program expenditures; 2) a staff member of the Inspection Service has been personally monitoring and approving bills and advising the Department of Controller staff when service has been rendered so that accruals are promptly made; and 3) Department of Controller personnel have been meeting with Marketing officials on an accounting period basis to review the status of corporate advertising programs and ensure that they are within budgetary limits.

We feel that these steps have effectively addressed process and control issues in this area.

- a. There have been reports in the press that problems were uncovered during the review of Marketing expenses related to the uncontrolled use of corporate credit cards by postal personnel. Could you explain under what conditions do postal officials receive credit cards to use in the course of postal business, and what controls are in place to oversee their use?

**ANSWER:** Postal credit cards are issued only after it has been ascertained that a department has a specific and continuing need to order commonly used supplies, materials and or services in the normal course of an everyday business enterprise. A postal credit card is the primary means of buying and paying for day-to-day operational needs. It expedites purchases, reduces paperwork, and reduces administrative costs.

Cardholders and credit card approving officials must be postal career employees. A Postal credit card will not be issued until the receiving employee has been trained in its use and given delegated local buying authority in writing. The cardholder and the Credit Card Approving Official are responsible for the proper use of the credit card. They must sign an acknowledgment of the Standards of Ethical conduct for employees of the Executive Branch before an account can be established.

Complete documentation must accompany any credit card purchase. Credit card holders cannot approve their own purchase requests. Separate statements are issued to the Credit Card Approving Official at the end of each billing period which are then reconciled with the credit card holders' reconciliation statements to assure all purchases have been accounted for and backed up with proper purchasing documentation.

In addition, a complete manual has been issued which delineates all the correct procedures to be followed and lists purchases that cannot be made with the credit card. The number of credit cards issued have been greatly reduced, and all credit card holders as well as approving officials have received mandatory training on the proper use of credit card purchases and procedures.

- b. Although Loren Smith resigned on November 1, 1996, he received a severance payment of \$94,000 earlier this year, on top of his actual compensation in 1996 of \$121,153 and an a payment for unused annual leave of nearly \$16,000. Did Mr. Smith receive his severance payment in 1997 merely to avoid exceeding the compensation cap in 1996?

**ANSWER:** Once a person terminates, they are no longer an employee and are, therefore, no longer subject to the salary cap. So, the year of the payment of the referenced items was not a factor.

- c. I understand that under the law, the Postal Service has the authority to "hire executives under employment contracts for periods not in excess of 5 years." While I appreciate the Service's desire to adjust the compensation cap provisions of the law to better attract qualified executives (in fact, HR 22 addresses this matter), it is the law until Congress acts. Does the Postal Service believe that since the law speaks of a compensation cap, benefits that are paid in any year can exceed the cap?

**ANSWER:** By the express language of the statute, the statutory compensation cap is imposed on compensation, not benefits. This position arises from the terms of the relevant statute, 39 U.S.C. 1003(a). Section 1003(a), the statute which imposes the pay cap, uses the term "compensation and benefits" three times -- "the Postal Service shall classify and fix the compensation and benefits of all officers and employees ..."; "[i]t shall be the policy of the Postal Service to maintain compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector of the economy." Yet, when providing for the pay cap, section 1003(a) uses the single word "compensation" -- "[n]o officer or employee shall be paid compensation at a rate in excess of the rate for level I of the Executive Schedule ...". Thus, there is a clear distinction between compensation and benefits in terms of the cap. As a result, the Postal Service's contributions toward an employee's life insurance, health insurance, retirement program, and thrift savings plan -- to cite some examples of benefits -- are not included in the cap. And it is our understanding that this holds true for federal employees outside the Postal Service, who are governed by a similar statutory cap. Indeed, if such benefits were included in the cap, federal and postal employees at or even near the cap in terms of compensation would, by virtue of these benefits, exceed the cap.

- d. How many postal executives are currently working under employment contracts? Do their contracts provide features such as Mr. Smith's (i.e., severance payments)? Although Mr. Smith did not own a home in the Washington area and is not purchasing a home in his new location, he was still paid the miscellaneous allowance provided for relocation expenses of \$10,000. This amount does not even include his expenses for travel to his new location, movement of household goods, and an approved lease cancellation. Do you believe that this "miscellaneous expense allowance" is generous, and if not, why not?

**ANSWER:** Currently, the Postal Service has one executive working under an employment contract. The executive, Gerald McKiernan, is working in a non-officer, PCES 1 position of Manager, Legislative Affairs. Upon expiration of the contract, Mr. McKiernan will be entitled to: a) severance pay for a period not to exceed six months or until he commences other employment, whichever is earlier; and b) executive outplacement services.



With respect to Mr. Smith's relocation expenses, officers who leave the Postal Service receive the standard executive relocation benefits which today includes home purchase, advance house hunting trips, selected closing costs on the new home, transportation of household goods, and enroute expenses. The miscellaneous expense allowance is provided to cover costs not covered by our procedures, such as purchase or cleaning of carpets/drapes, home repairs, etc. Mr. Smith received the standard executive relocation package, however, he did not use all the relocation features of this package. Since he did not purchase/sell a home in the D.C. area, nor purchase a home after leaving the USPS, the USPS did not incur the most expensive features of relocation process--the sales commission and closing costs of a home. In light of the above, we do not believe the \$10,000 miscellaneous expense allowance was extravagant.

35. What is the status of the Postal Service's efforts to improve the management of major purchases, the purchasing process, and the training and ethics awareness of purchasing personnel?

**ANSWER:** Our efforts in these areas have proven very successful. We have issued new purchasing policies designed to ensure that our contracting officers and purchasing specialists further the business and competitive objectives of the Postal Service; we have established a new internal control method called the Purchasing Assessment Program; and we continue to emphasize ethics awareness, education and training, and the professional development of our purchasing professionals.

In January, we issued our new Purchasing Manual (PM), the first complete revamping of our policies since 1987. The result of a year-long review and redrafting effort by Purchasing and Materials, Diversity Development, and the General Counsel, the new PM contains several important new concepts and approaches; among the more significant is a heightened focus on teamwork between the contracting officer, internal customers, and others involved in the purchase. These purchase teams will result in more customer involvement in the purchasing process and in better overall coordination and customer satisfaction. A policy of prequalification, which has long been used in our purchasing, has been reemphasized, and we have made past performance an essential evaluation factor. Supplier diversity has received heightened attention as a major strategic initiative, and our new policy mandates that contracting officers ensure that our supplier base reflects the diversity found in the American supplier community. Establishing a common, simplified purchasing process to be used throughout Postal Service purchasing and adapting commercial purchasing practices for those goods and services available in the commercial marketplace will go far in making purchasing more efficient and more effective. Lastly, the new policies represent the culmination of our purchasing consolidation efforts mentioned above and begun in 1993.

The Purchasing Assessment Program is a new oversight tool which provides a focal point for measuring purchasing performance, improving internal controls, and providing management with the information necessary to ensure optimum performance. The program involves data gathering and analysis, and assessment and improvement of our purchasing activities. Combined with existing control and review procedures, the Purchasing Assessment Program will bring a sharper focus to our activities, provide meaningful measurement of them, and will allow us to more quickly determine where and what we can improve.

In addition to our ongoing training (the Postal Service manages one of the federal government's most extensive purchasing and materials curriculum and professional development program), we recently broadcast nationally a 2-hour seminar titled The Purchasing Manual - New Directions. The seminar discussed our new policies, and was presented 4 times in 2 days to an audience consisting of managers, contracting officers, purchasing specialists, and Purchasing and Materials' customers.

Under Office of Government Ethics guidelines, the Postal Service must provide covered employees with annual ethics training. During the current fiscal year, we have fulfilled this requirement using an interactive Computer-Based Training program building on the program we used in 1998. Two new modules (Misuse of Position and Equipment, and Post Employment) are currently being developed and will be added to the current seven modules.

In conclusion, we feel we have made meaningful improvement in each of the areas referenced in the question.

36. What is the status of the Postal Service's efforts to (1) establish stronger requirements for opening Express Mail corporate accounts and (2) hold managers and employees accountable for handling Express Mail corporate accounts' transactions in accordance with the Service policies and procedures for verifying Express Mail corporate account numbers, closing Express Mail corporate accounts with negative balances, and recording required data for all Express Mail packages accepted?

**ANSWER:** In March 1997, the Postal Service increased the minimum balance to open an Express Mail Corporate Account (EMCA) to \$150. Employees processing new account applications also were required to begin to verify that the address contained on the application was a valid mailing address before approval for a new account is to be given.

A memorandum was sent to field managers in March 1997 reiterating that the following requirements be met by acceptance employees:

- 1) An Invalid Express Mail Corporate Account Numbers list, which is updated every two weeks in the Postal Bulletin, must be checked before acceptance of any EMCA shipment is completed.
- 2) A manual verification of EMCA post office label copies with the retail acceptance unit listing must be made daily and corrections entered as necessary.
- 3) Reports contained in the Electronic Marketing Reporting System, which is the means used to credit customers' accounts, must be accessed to detect EMCA transactions which could not be credited to a specific EMCA for investigation and corrective measures.

In addition, policy was changed so that accounts with a monthly ending balance below their required minimum balance for two consecutive months, could be closed by the Postal Service. Previously, the time period was three months.

- a. Given the Express Mail corporate account revenue losses and other related problems reported by the GAO, why are Express Mail corporate accounts the most cost-effective method for achieving the purpose for which they were intended (i.e., to attract more Express Mail customers with a convenient way to pay postage), in light of all the relevant factors, particularly the increased availability of other payment methods such as debit and credit card charges?

**ANSWER:** The corporate account is convenient for customers who do not have a postage meter or weighing scale, or those who do not want to come to a post office to pay for each shipment individually. By using the corporate account these mailers can give their Express Mail to their carrier or drop it into an Express Mail collection box. Many EMCA holders also require a list of shipments made which they receive monthly from the Postal Service.

One effort of the new package pilot group will be to provide customers payment alternatives for their specific needs. These alternatives could improve upon or replace Express Mail Corporate Account.

37. In regard to the Service's initiatives to correct the problems identified by the GAO in the acceptance of bulk mail, GAO noted they offer the promise of addressing the concerns. However, as evidenced by the continuing pattern of internal control problems, sustained management attention is needed to ensure continued improvement. This area of bulk mail is vitally important given the increasing volumes of barcoded mail. When do you believe the bulk mail acceptance system will be operating effectively and providing the Service with reasonable assurance that all significant amounts of bulk mail revenues are being collected?

**ANSWER:** Although we believe that the bulk mail acceptance system is operating effectively at this time, we continue to look for opportunities to improve the processes. To that end, we are currently

sponsoring a process management effort in the area of Protecting Revenue. Our process management team is currently collecting data to identify improvement opportunities in the acceptance of permit imprint mail at Bulk Mail Entry Units.

- a. How is the Service reasonably assured that:
- ♦ required mail verifications, including supervisory reviews, are done and the results are documented as required?
  - ♦ mailings resubmitted following a failed verification are reverified and errors are corrected?
  - ♦ acceptance clerks and supervisors are provided with adequate, up-to-date procedures, training, and tools necessary to make efficient and objective verification determinations?
  - ♦ information on the extent and results of verifications, including supervisory reviews, is regularly reported to appropriate levels, including Postal Service Headquarters, and that such information is used regularly to assess the adequacy of controls and staffing training needs, and acceptance procedures?
  - ♦ risk becomes the prominent factor in determining mailings to be verified?

**ANSWER:** Reports of verifications are rolled up at the national level. Information is reviewed and irregularities are referred back to Area offices for resolution. In-depth verifications are performed on 12 percent of the mailings subject to Two Pass, which is consistent with our expectations. We have just completed refresher training for all Managers, Business Mail Entry, to ensure all available tools are utilized as we continue to look for technology solutions to provide more efficient and objective evaluations. Information on the extent and results of verifications is now available on our internal Executive Information System to allow immediate access by field managers responsible for managing this process. Implementation of One Pass/Two Pass was a significant step in movement toward risk as the prominent driver of verification. Additional opportunities are built into the Direct Link project.

- b. In addition, what is the status of your efforts to develop methodologies that can be used to determine systemwide losses associated with accepting improperly prepared mailings?

**ANSWER:** Rather than develop methodologies to determine systemwide losses, we are focusing on identification of systemwide opportunities to improve our revenue protection processes as described in the previous response.

- c. What is the status of the Postal Service's Manifest Analysis Certification program, which is designed to evaluate commercial manifest software?

**ANSWER:** The Postal Service has certified ten products produced by seven software vendors under its first round of Manifest Analysis and Certification (MAC) program testing. This first cycle certified software that produces Domestic and International single-piece rate manifests, including those mailings using special services. Certification under the first MAC cycle will extend through December 1997, with testing for the next cycle to begin in the fall of 1997. The next MAC cycle will include certification of software that produces batch manifests and we expect to certify products by many of our major presort software vendors.

- d. What were the results of last year's pilot project of national quality standards with six presort service bureaus? Have you now implemented these quality standards for mail produced by the presort service bureau industry?

**ANSWER:** We have completed our evaluation of the proposed standards at the pilot sites. Based on those results we are finalizing the standards and began implementation of these quality standards in July.

- e. What is the status of the Postal Service's "One Pass/Two Pass" approach to mailing verification that is underway in your acceptance units? -

**ANSWER:** One Pass/Two Pass was implemented in our field offices in November 1996. Reports of verification activity include findings from mail moving through each process.

- f. What were the results of your staffing and workload reviews at acceptance units? How if at all have the staffing of units changed? How do work schedules take into account the heavy volume periods to ensure that all necessary checks are being performed? How many staff were added at your district offices to coordinate your various revenue protection initiatives?

**ANSWER:** We have completed development of the national staffing standards and began field roll-out in July. The scheduling component of these standards will ensure that units are staffed to accommodate heavy volume periods. In addition, the One Pass/Two Pass process facilitates necessary checks on high-risk mail. No additional staff has been added as a result of this activity.

- g. What on-going training is in place for acceptance unit employees and postmasters on the new acceptance requirements from classification reform? How many employees have been trained and to what extent if at all will this training be required more than once?

**ANSWER:** The standard mail classification training program has been updated to include all new acceptance requirements from Classification Reform. All employees who accept bulk mailings were trained on new acceptance requirements. Supplemental training is part of the standard operating procedures in bulk mail acceptance. More importantly, as part of our *Customer Perfect!* process, our FY 98 corporate goals include improving the proficiencies of the Business Mail Entry Units (BMEUs). We are currently building the measurement systems and identifying the components of BMEU proficiency from which we will develop a training and certification program for employees in these units.

- h. How many computer-based supervisor's workstations have been installed? Do all acceptance units with supervisory positions now have them? How are these stations working, in solving-the problems with consistent application of standards?

**ANSWER:** There are 171 acceptance sites in the country with BMEUs supervisors. Each has a computer-based supervisor's workstation with cc:Mail and scanner capability. These units allow BMEUs to communicate with each other and share information on how they are solving mutual situations to ensure consistent application.

- i. What problems have you encountered with the Automated Barcode Evaluators? To what extent have these problems limited the ability to verify barcodes on mail pieces for which automation rates have been claimed?

**ANSWER:** We have encountered two problems with the equipment. One is related to the way mail was fed to the camera which evaluated the barcode; this problem was solved with a software solution. A second problem has recently been identified related to the processing of cards and lightweight pieces. Although these problems have resulted in an extension of the diagnostic phase of ABE implementation, the remaining problem only occurs on pieces constructed of card of lightweight paper stock. Less than nine percent of the tested mail does not meet the target score, and we believe that number will drop significantly as soon as the remaining hardware problem is fixed.

- j. What were the results of the proof-of-concept procurement for devices to automate many of the acceptance processes? Have the prototype devices been deployed for testing and evaluation? If not, when do you expect the deployment to occur?

**ANSWER:** As yet there are no results from the proof-of-concept procurement which is attempting to automate many of the verification processes performed at our acceptance units. The device is built and about to be deployed at the Palatine, IL acceptance unit. The deployment began in June and vendor data will be collected for approximately six weeks. Thereafter the machine will be moved to

the Merrifield, VA acceptance unit for quantitative testing. If successful, our Purchasing department will begin the deployment of national quantities in calendar year 1998.

- k. What is the status of the effort to develop electronic interfaces with your largest customers? What were the results of the pilot test?

**ANSWER:** A pilot test of interface software was conducted last August-December at one large mailer plant and one Business Mail Entry Unit (BMEU). Although software was not fully developed, transfers of data, presentation of the data to BMEU clerks, and use of the hand-held computer devices all provided good results. A more robust pilot of fully developed software began in late June at four large mailer plants, and will run through August 1997 at least. Results of these pilots will allow us to finalize software and plan FY 98 roll-out plans.

- l. What is the status of the redesign of the national bulk mail entry support software? Is the system providing national data on results of verifications, including errors, as well as building mailer verification histories? To what extent have you conducted targeted verifications based on these mailer verification histories?

**ANSWER:** Our Information Systems organization is currently finalizing the results of a task order which charged a contractor to review our documented requirements, evaluate off-the-shelf software, and produce a design and development plan for the new system. Preliminary costs estimates have been received and are being analyzed for inclusion in a formal Decision Analysis Report that will be presented to senior management to support funding.

We anticipate that detailed mailer verification histories will begin to accumulate once the electronic interface work described in answer to question 37.k is deployed (FY98). Full coverage through all bulk mail entry units will, however, require the new support software described above, which will likely take 2-3 years to develop and deploy. Until then, site-specific targeted verifications will be conducted based on mailer performance at each Business Mail Entry Unit.

38. When will the Postal Service provide the draft of the strategic plan required by the Government Results and Performance Act of 1993 to the Congress?

**ANSWER:** The Board of Governors reviewed the initial draft of the plan on June 2. Following that meeting, the Board and management provided the plan to interested parties, including Congress.

- a. The Act envisions that when developing the strategic plan, "the Postal Service shall solicit and consider the views and suggestions of those entities potentially affected by or interested in such a plan..." In general, how do you plan to obtain the input of internal and external stakeholders as part of developing the Postal Service's strategic plan? When will you provide a draft of the strategic plan to these stakeholders as part of this consultative process?

**ANSWER:** To comply in both spirit and intent, we decided it would be necessary to go beyond our current interactions with our customers and other stakeholders. First, we have met on nine occasions with Congressional and GAO staff members to inform them of our progress in developing our Five-Year Plan and to receive their feedback.

To solicit input from our customers and other interested parties, we published a notice in the *Federal Register* on April 2, 1997, to request comments on our mission, vision, goals, priorities, and our current strategic planning process. The *Federal Register* notice was also published on our Postal Service World Wide Web home page. Some felt that this *Federal Register* notice was too narrow and that it limited comment, so we published an amplifying *Federal Register* notice on May 22, 1997, that expanded the scope of issues for comment. In both notices, we provided a name, address, telephone number, and e-mail address for interested parties to send us comments.

We sent letters with a copy of the *Federal Register* notice to over 90 major customers, suppliers, competitors, unions, and associations, bringing the notice to their attention and asking them to respond if they wished to comment. Additionally, we requested stakeholder inputs using the following customer channels:

- GPRA briefing at the March 1997 Mailers' Technical Advisory Committee meeting.
- May 18-21 National Postal Forum. The Strategic Planning Office held 6 meetings with key executives for the postal industry, including several association directors and more than 30 of their members. Also, the Vice President of Strategic Planning and three key industry representatives discussed the Postal Service mission, goals, objectives, and priorities at an open panel discussion attended by about 60 people.
- Postal Customer Councils are an important link to our industry. The Strategic Planning staff presented our strategic planning process, mission, goals, objectives, and priorities during May and June 1997 in: Pittsburgh, PA; Akron/Canton, OH; Denver, CO; Austin/San Antonio, TX; Santa Ana, CA; and Portland, ME. These meetings had a combined attendance of over 300 participants.
- We published an article about our strategic plan in the June issue of *Memo to Mailers*, which has a circulation of about 145,000.
- To solicit input from consumers, we sent a copy of the two *Federal Register* notices to 30 of our Customer Advisory Council leaders throughout the country. These men and women are volunteer consumer representatives.

To solicit employee input on the Five-Year Plan, we utilized the following internal communication channels:

- Our Vice President of Labor Relations communicated the essence of the *Federal Register* notice to our employee unions and management associations.
- We briefed a team of 40 senior managers from the field and Headquarters in April 1997 and received their input to our mission, goals, and priorities in May 1997.
- A synopsis of the *Federal Register* notice appeared in *Postal Life*, a monthly Postal Service publication that is sent to most of our employees.
- We published the *Federal Register* notice on the internal Postal Service Web home page.
- We placed a spot announcement on Postal Vision, a television information system available to postal employees.
- A synopsis and reference to the Postal Service Web page was placed in *Postal Link*, a corporate-wide electronic mail system.
- An article about our strategic planning process, mission, goals, and strategies was published in *Straight Talk*, a publication sent to 50,000 postal supervisors.
- An article about our strategic planning process, mission, goals, and strategies will be published in a publication that is sent to over 25,000 postmasters.

We provided a draft of our Five-Year Plan to interested internal and external stakeholders in June.

- b. One of the entities affected by such a plan are the internal "stakeholders" in the Postal Service, the unions and management associations. To what extent if at all, do you envision consulting with them on the Strategic Plan?

**ANSWER:** A draft copy of the strategic plan was provided to stakeholders in June.

- 39. Given that the meetings recommended by the GAO two and a half years ago between the Postal Service and employee groups to deal with the labor-management relationship have failed to result in changes, how does the legislatively mandated consultative process on GPRA offer the Service an opportunity to engage all parties in discussions regarding the quality of life on the workroom floor of the Postal Service?

**ANSWER:** GPRA requires the Postal Service to solicit and consider the input of unions and management associations. It does not mandate that the unions or management organizations submit any such input.

- a. Please provide the Subcommittee an update on your most recent efforts to convene a "summit" meeting? What are the specific reasons for the summit not yet occurring? When do you believe the summit will occur and what do you expect will be achieved at such a summit?

**ANSWER:** We have solicited the assistance of the Director of the Federal Mediation and Conciliation Service (FMCS) and have engaged private sector labor-management facilitators to assist us in convening and executing a successful summit process. Those experts concluded that our early efforts should be to secure the commitment of the NALC and the APWU. This effort was undertaken in a series of pre-summit meetings and has led to discussions currently going on regarding the grievance and arbitration procedure. Recently the Director of FMCS has taken steps to bring the other five major postal organizations into the summit process, and this will be conducted shortly. Our intent will be to solicit the views of all organizations as to how we can implement the recommendations of the GAO report of October 1994. Since the two major unions do not embrace many of the GAO recommendations, it is difficult to predict how much will be achieved.

- b. In addition to a summit meeting, what other actions do you believe should be initiated to bring the unions, the management associations, and the Postal Service together in an effort to improve the working conditions of postal employees?

**ANSWER:** Every effort has been made to improve overall labor-management relations. We will continue to evaluate what additional actions can be taken to improve the working environment. With respect to improving relationships with the National Rural Letter Carriers Association and the National Association of Postal Supervisors, nothing else seems necessary.

40. Grievances at the step 3 level have risen from about 50,000 in 1993 to about 90,000 in fiscal year 1996, an increase of about 80 percent. What do you believe are the reasons why grievances have risen so much in the last few years? What steps are you taking, to try to reduce this backlog? What actions do you believe are needed to prevent such a large backlog from reoccurring in the future? How much does the grievance process cost the Postal Service and its unions?

**ANSWER:** The Postal Service and its unions have a contractually negotiated grievance procedure which has changed very little in the past 20 years, although changes have been discussed on many occasions. Under the negotiated procedure, the unions have sole control over the filing of grievances and the appeal of those grievances through the steps to arbitration. The more grievances filed by the unions, the larger the backlog becomes. Repetitive grievance filing and the tendency not to withdraw grievances until immediately prior to arbitration contribute significantly to the backlog.

We have addressed the grievance backlog in the recent summit meetings with the unions. After extensive discussions with the American Postal Workers Union, we signed a Memorandum of Understanding on May 8 which describes three initiatives designed specifically to reduce the backlog: co-mediation; FMCS mediation, and accelerated arbitration. Joint implementation plans for these three initiatives are currently being developed. We are continuing to discuss with the unions additional ways of reducing the backlog.

Investigation and adjudication of grievances to resolve issues are handled on the clock in accordance with the negotiated procedures. Arbitration costs are split between the Postal Service and the unions.

41. I understand that the person who became the Postmaster of the Atlanta, Georgia post office this year held a "swearing-in" ceremony that cost ratepayers anywhere from \$ 10,000 to \$40,000. What kind of ceremony, if any, was held when the new Atlanta Postmaster took office? How much did this cost? Were these cost figures audited by the Postal Inspection Service, or were they self reported by the Atlanta Post Office? Is it standard practice in the Postal Service to hold "swearing-

in" ceremonies for postmasters? If so, what is the average cost of these ceremonies, and what message does this send to the ratepaying, public?

**ANSWER:** In light of the August 1 report issued by the Inspector General concerning the swearing-in ceremony, we are reviewing the report's recommendations to determine if any policy changes should be made. We will provide a response to the subcommittee within 30 days.

42. How has the Postal Service spent the approximately \$3.5 billion profit earned the last two fiscal years?

**ANSWER:** We did not spend the profits. Rather, these profits plus other sources of non-cash charges such as depreciation and amortization were used to reduce negative equity, debt, and support our capital investment program. Negative equity was reduced by \$3.338 billion in FY 1995 and FY 1996. In the same time period, outstanding notes payable to the Federal Financing Bank were reduced \$3.067 billion and a total of \$4.148 billion was expended to purchase property and equipment.

43. The current rate structure includes \$936 million annually to be set aside to retire the negative equity over a 9 year period. At the end of fiscal year 1994, the Postal Service had a negative equity of almost \$6 billion which had accumulated since postal reorganization. Board of Governors Resolution 95-9 on July 10, 1995, provides that whenever it is projected that the Postal Service's net income will not meet its obligation to pay the \$936 million, "it will take actions which will reduce costs and/or increase revenues." Based on actual and projected trends in your prior year loss payments and net income, at some point in 1998 a rate increase (and/or severely decrease costs) will be necessitated by the Governor's requirement that the Postal Service cover the \$936 million payment without going in the red.

- a. One view of the law's break-even mandate is that rates cannot increase until the Postal Service's net income approach's zero, rather than when it goes below this \$936 million threshold for paying prior year losses. How would you respond to this concern?

**ANSWER:** Board of Governors Resolution No. 95-9 was adopted by the Board in response to concerns expressed by the Postal Rate Commission and certain intervenors that the Postal Service was not properly using amounts provided by the Provision for Recovery of Prior Years' Losses to restore equity. They criticized the Postal Service for waiting until deficits were being incurred before increasing rates instead of considering new rates when deficits were first projected. When current postage rates were designed, a \$936 million Provision for Recovery of Prior Years' Losses was included. Therefore, Resolution 95-9 seeks to ensure that amount, cumulative annually since the rates were implemented, will be restored to equity through net income. Since the Postal Service has earned net incomes greater than \$936 million in both 1995 and 1996, net income(s) below the \$936 annual target could be in compliance with Resolution 95-9 if the cumulative total net income earned since rates were implemented on January 1, 1995 until new rates are implemented, equals or exceeds \$936 million annually for that same period. The excess amounts from 1995 and 1996 will be applied to projected net income of \$545 million in 1997 and the projected deficit of \$1,293 million in 1998.

- b. To what extent has the Postal Service made annual payments to retire the negative equity above and beyond this planned amount of \$936 million? Please provide for the record the Postal Service's actions since fiscal year 1994 in addressing the negative equity. If the Postal Service makes payments greater than this amount, some in the mailing community have complained, as noted in the previous question, that this hastens the need for a rate case and abrogates the agreed upon planned expenditures to reduce the negative equity as set in the rate case. How do you respond?

**ANSWER:** The Postal Service actions in addressing the negative equity are summarized in the Statements of Changes in Net Capital Deficiency on page 58 of the 1996 United States Postal Service Annual Report, and is provided as Attachment III. This shows the capital deficiency has dropped from \$5,902 million to \$2,623 million.



The Postal Service negative equity was caused by cumulative net losses since postal reorganization, and the restoration of equity will be accomplished by earning cumulative net income over a period of time.

Although a Provision for Recovery of Prior Years' Losses of \$936 million was included in the development of current rates, each annual net income cannot equal exactly \$936 million because net income typically decreases over the course of a rate cycle. Recognizing this fact, Resolution 95-9 addresses equity restoration on a cumulative basis from last rate implementation. During the rate cycle, the recovery of prior years' losses should average approximately \$936 million annually. Based on our projections, the Postal Service will fall short of the \$936 million goal in 1998.

44. Last year's delivery of 2-day and 3-day mail--at 80 and 83 percent respectively--did not score as high as overnight delivery. This performance has raised a concern among some customers that the Postal Service's emphasis on overnight delivery is at the expense of 2-day and 3-day mail. Is this concern valid? What adjustments will be necessary? What percentage of mail volume is delivered a) overnight, b) 2-day, and c) 3-day?

**ANSWER:** With our overnight performance at record levels, we on placing stronger emphasis on improving two- and three- day service. We have put in place measurement systems on a weekly basis to focus the organization on performance for second- and third-day service. Special teams from our Area offices and Headquarters are analyzing operations at mail processing plants and are providing feedback to local operations managers on steps they can take immediately. We are evaluating our existing commercial air transportation network to determine if we can achieve service improvements by converting some mail transportation from scheduled airlines to ground transportation. Concurrently, we are applying process management in order to map the processes involved in providing this service and identify the critical points in the overall process where additional measurements are needed to help focus our efforts. The overall result will be to identify where changes need to be made to our mail processing, transportation and delivery operations to continuously improve our ability to meet two- and three-day commitments. As we focus on the problem, we will see improvement this year. For fiscal year 1998, which will begin in September, two- and three-day performance will have national goals as overnight service currently does, and our field operation managers are currently in the process of identifying the resources necessary to achieve these goals. As we progress through the year, there will be continuous improvement in our two- and three- day performance as these plans are implemented.

About 46 percent of First-Class Mail is committed to overnight delivery; about 27 percent is committed to two-day delivery; and 27 percent is committed to three-day delivery.

45. The last year of productivity gain was in fiscal year 1993 when a rollover in the workforce resulted in lower-paid workers replacing higher-paid ones. To what extent do you believe that the productivity statistics can be improved?

**ANSWER:** As was shown during the open session of the May 1997 Board of Governors meeting by the Christens Associates, Total Factor Productivity for the first two quarters of fiscal year 1997 was positive and above plan.

- a. As you are aware the Postal Service's total factor productivity has been declining in recent years; to what extent do you expect the 5 year, \$4.8 billion capital investment on automation/mechanization to improve the Postal Service's total factor productivity?

**ANSWER:** The presentation given during the open session of the May 1997 Board of Governors meeting by the Christens Associates showed the average Total Factor Productivity for the U.S. Postal Service during the last ten years was positive and about fifty percent greater than the comparable productivity growth for the private sector. We expect that we will experience positive total factor productivity growth during the five- year period 1997-2001 as a result of capital investment in automation/mechanization.

- b. Do you expect the number of Postal Service employees to increase or decrease during the next 5 years—assuming the volume of mail remains fairly constant? What areas do you plan to outsource and how do you anticipate this affecting the number of employees?

**ANSWER:** Given current trends in mail volume, workyears are projected to grow approximately 1 percent per year. The question assumes no growth in mail volume which would normally result in a fairly stable workforce; however, the anticipated growth in delivery points will necessitate additional workyears for that function. The workforce growth to serve additional delivery points would be more than offset by workforce reductions attributable to cost savings.

The Postal Service has historical outsourcing experience in contract postal units; some custodial labor and building maintenance; some vehicle maintenance; a portion of air and ground transportation; a mail transport equipment center; information systems; highway contractor delivery; National Customer Support Center in Memphis; the Express and Priority Mail Supply Fulfillment Center in Indianapolis; and the Eagle Hub in Indianapolis. Several outsourcing programs are in various stages of consideration, approval, or implementation: Customer Call Centers; Priority Mail Processing Centers; and a Mail Consolidation Center. Other potential outsourcing programs under consideration include additional mail transport equipment centers, programs relating to money order scanning and information systems, computerized mail forwarding, and postage meter operations. Strategic outsourcing enables us to use external suppliers' investments and specialized professional capabilities that would be, along with various other considerations and factors, too expensive or impossible to duplicate internally. This joint strategy decreases risks, lowers investment requirements, and improves responsiveness to customer needs. Strategic outsourcing will be one of the tools used to enhance our competitiveness, thereby enhancing long-term job security for our employees.

46. Despite GAO recommendations and the expressed interest of this Subcommittee last year, the Annual Report and Comprehensive Statement failed to include detailed customer satisfaction data. Although I appreciate that the Service has been sharing business and residential customer satisfaction data with the Subcommittee on a regular basis, I am very concerned that after millions of dollars that the Postal Service has expended on measuring these important data, it has failed to truly utilize this information to improve customer service. How, if at all, does the Postal Service distribute and utilize internally its customer satisfaction results, particularly business customer responses, in order to improve customer satisfaction? Please provide for the record specifics on how the Postal Service regularly disseminates and uses customer satisfaction and other performance measurement data. Please provide specific examples of how these data have been used to improve performance in a systematic manner.

**ANSWER:** The Postal Service distributes service performance measurement information, including that on customer satisfaction through two electronic information systems. The Executive Information System provides high-level graphic and tabular information regarding service performance measurement for all executives and others given access to it. The Corporate Information System (CIS) provides more detailed information and a database for individualized report generation. This is available to any professional in the Postal Service who receives approval to access the data.

Customer satisfaction data is utilized in the CustomerPerfect! process by providing requisite measures of customer perception. The effort to improve the delivery performance of First-Class mail has resulted in specific increases in the customer satisfaction ratings of residential and business customers alike. The five-minutes-or-less program arose from data generated by the Customer Satisfaction (CSM) process. Similarly, the National Service Center 1-800 initiative was based in part on satisfaction ratings regarding customer telephone experiences. From talking to various Performance Clusters and Area staff and from the number of times the Customer Satisfaction applications are accessed in the CIS, we know that CSM information is being reviewed and analyzed. CSM data, therefore, plays an integral part in understanding customer views regarding the service they receive and in the formulation of programs designed to help improve those services.

- a. Why has the Postal Service failed to provide more detailed customer satisfaction data, including trend information, in the Annual Report or Comprehensive Statement?

**ANSWER:** We will design trend charts or graphs targeted for inclusion in the next Annual Report and Comprehensive Statement.

47. When a citizen files a change of address notice, the Postal Service makes the new address available to thousands of mailers to update their mailing lists. This is how magazines find subscribers who have moved; charities, colleges, credit bureaus, and bill collectors also find you this way. People cannot have mail forwarded without allowing the Postal Service to give their new address to thousands and thousands of mailers throughout the country. The GAO raised questions as to whether the Postal Service violates the Privacy Act by making addresses available in this fashion, although the Postal Service disagrees. Certainly, NCOA saves time and money and ensures that more mail gets to the new address. However, marketers love NCOA because they can create lists of people who recently moved and send them unsolicited mail. Some people are annoyed by the extra mail, for example, those who filed a change of address for a deceased relative may be upset by the barrage of mail.

Representative Condit has introduced a bill that is before this Subcommittee that would let people choose whether their new address should be released by the Postal Service. As you know, the GAO reported last year concerning the Postal Service's need to improve oversight of its address change process in order to protect citizens' privacy; for example, the GAO found that "The NCOA program was operating without clearly delineated procedures and without sufficient management attention to ensure that the program was operating in compliance with the privacy provisions of federal law."

**ANSWER:** Before responding to the subparts of this question, we wish to clarify two issues. First, we must point out that the suggestion that the GAO has questioned the lawfulness of the NCOA list correction service is not accurate. In its report, the GAO did not take issue with the basic lawfulness of the entire NCOA program and questioned only the secondary uses of NCOA-linked data, such as creation of "new movers" lists by a licensee's customer. Second, with regard to the Postal Service's oversight of the NCOA program, the shortcomings identified by the GAO were corrected.

- a. Although the Postal Service has argued that Representative Condit's bill would increase costs and delay forwarding the mail, it has been observed that when citizens file a change of address on a temporary basis (rather than checking the permanent address change box), your mail gets forwarded just like a permanent change of address for one year, but the difference is that your new address won't be added to the NCOA list. Given that this option would present a cost-effective solution to offering the public the option of opting out of the release of their address change (and thus allow the Service to better comply with the Privacy Act), what would be the problem of implementing Representative Condit's bill in this manner?

**ANSWER:** It is not clear to us how this option would present a cost-effective solution. It would unquestionably increase forwarding costs, which are currently \$1.5 billion per year, and cause delivery service standards to suffer. The best way to contain these costs is to reduce the amount of mail entered into the mailstream with bad addresses by correcting mailers' addresses prior to mailing. This is the important function served by the NCOA program. If postage rates are to be maintained at acceptable levels, it is essential that the Postal Service provide a sound address correction service. In keeping with this, the move update requirement, which was adopted as part of Classification Reform and becomes effective July 1 of this year, will require mailers to maintain up-to-date addresses to receive all First-Class presort and automation rate discounts. Allowing customers, who may be uninformed as to the economic consequences, to opt out by simply checking a box on a form would seriously jeopardize the effectiveness of the list correction program. For those customers who want only selected mail to follow them to their new locations, it would be more cost-effective if they were to notify their correspondents directly and refrain from filing a change-of-address order.

- b. What is the status of the Service's efforts to develop and implement written oversight procedures for overseeing the NCOA program as well as enforcing all provisions of the

NCOA licensing agreement? Please provide a copy of these written procedures, examples and evidence of stronger enforcement, and how both the procedures and enforcement address the recommendations of GAO's report on this matter.

**ANSWER:** Prior to the final release of the GAO report, formal written procedures addressing the GAO's noted concerns with all functional areas of the NCOA program had already been fully implemented. These items were compiled in the *NCOA Procedure Guide*, which has been produced for internal use only. This guide, which has previously been provided to the GAO, is provided as Attachment IV.

Specific to the GAO's concerns was the NCOA seed record operation, which had one minor technical deviation within the July 1993 to April 1994 time frame that has been addressed and corrected (as previously reported to the GAO and congressional oversight committee). Security of the seed process is monitored on an ongoing, scheduled basis. Periodically, monitored mailings are released in coordination with field offices. This process is performed on a scheduled basis, and all activities are documented. We wish to reiterate that no breach of security was found during the GAO investigation.

Also, in compliance with the GAO recommendation, the issue of NCOA-related advertising has been addressed, and written documentation is now provided to each licensee that submits advertisement literature for approval. Licensees are also notified by phone of their request status. In addition, when a customer inquiry or complaint is resolved, all report documentation is stored in the NCOA Department's centralized file, the repository for all licensee documentation.

The NCOA program maintains the most stringent name and address matching requirement in the mailing industry. To ensure that each licensee is in compliance with USPS requirements, they are audited at least three times per year as directed by a formal audit schedule. The audit schedule is vigorously followed and monitored by management. During on-site audits, physical and data security are surveyed and evaluated. Interviews are conducted with licensee staff and employees responsible for NCOA. As has always been our policy in the past, if licensees are found to be in non-compliance with the terms and conditions of the license agreement, they may be suspended or terminated as appropriate. This provision is vigorously enforced, as evidenced by the suspension of a licensee in 1996.

To further address issues relevant to the proper oversight of the NCOA program, an annual NCOA licensee conference has been established. All licensees were in attendance at the first conference, which was held in Memphis in April 1997. This meeting was used to further clarify the importance of the NCOA program — not only to the USPS but to anyone who uses the mail service. The message was clear: any misuse of the NCOA database will not be tolerated, and any misuse of the information will result in serious consequences to the offender. It is our goal — and we do not intend to be deterred — to provide, promote, and protect the NCOA program for years to come. Correcting the misinformation that continually swirls around this valuable program is a continuous battle, and it is our position that the NCOA program is being conducted properly and is in compliance with all applicable laws and regulations.

- c. Why has the Service failed to further restrict the use of NCOA-linked data to create or maintain new-movers lists by explicitly stating it on the acknowledgment form that is signed by customers of NCOA data?

**ANSWER:** The Postal Service does not believe that the Privacy Act requires this restriction. Without some basis in law, any attempt to interfere with a customer's use of their proprietary data would be unenforceable.

- 48. As part of sending notification to a customer's new address, the Postal Service instituted a "Welcome Kit" package that is sent to the customer when the address change is processed. It includes a confirmation letter that your address change has been processed, and also includes information about settling into a new address after a move (such as reminders on establishing utility service) as well as advertisements from companies such as Sprint and Palmolive. I further understand that this Welcome Kit is sent out via a third party contractor under contract with the Postal Service. How does the Postal Service comply with the legal prohibition against creation of a new movers list when in fact the list sent to the Service's contractor is a list of new movers?

**ANSWER:** First, we know of no legal prohibition against creation of a new movers list. Further, the addresses are transmitted electronically on a daily basis to the subcontractor of our commercial partner for the sole purpose of preparing the Welcome Kits for mailing, after which the addresses are immediately destroyed. Since all parties involved are precluded from using the addresses for any other purpose, there is no disclosure of them to the public in violation of 39 U.S.C. 412. Additionally, the contract in place for Welcome Kit production explicitly requires compliance with the Privacy Act of 1974, 5 U.S.C. 522a.

The Welcome Kit concept is being tested nationally for one year. In addition to confirmation of customer-provided move information, it contains useful and timely information, such as phone numbers of local public services (i.e., libraries, fire stations, DMV locations, etc.), voter registration requirements, utility information, and commercial ads for move-related consumer items. To date, this enhancement to our traditional public service of confirming move information has been very well received by the public.

- a. Assuming that the Postal Service believes the current process complies with the Privacy Act requirements, how does the Service deal with the concern from direct marketers that the companies whose advertisements are included in the mailing are receiving a competitive advantage over ad mailers who must prepare and send their mailings out on their own, and further, are legally prohibited from obtaining lists of new movers? How much does an advertiser need to pay the Postal Service to have its ads included in the Welcome Kit?

**ANSWER:** We are unaware of any law that prohibits ad mailers from obtaining lists of new movers, which are commercially available from a variety of sources. As to unfair advantage, the Welcome Kit is intended to be complementary to existing direct mail services, not competitive with them. The kit is sent to a new household only once, immediately after the change-of-address order takes effect. Participation by other interested companies is welcomed and encouraged by both the Postal Service and Targeted Marketing Solutions Inc. (TMSI).

Advertisers make payment to our commercial partner, TMSI, not to the Postal Service. Selection of advertisers on a fair and equitable basis, arrangement for payment, and ad pricing are within the core competencies of TMSI. Ad pricing is affected by such factors as frequency of placement, time of placement, size, and colors. These activities are handled by TMSI and are subject to review and approval by the Postal Service.

49. Drawing on your experience as PMG, Chairman of the Board at TVA, and President and CEO of Nissan Motor Manufacturing Corporation, U.S.A., as well as other executive positions held in the private sector, what do you see as the major differences between the Postal Service's Board of Governors and the Boards of other government agencies and the private sector? Also, what legislative changes, if any, do you believe should be made to strengthen the Postal Service Board?

**ANSWER:** The Board of Governors differs from the boards of other organizations in that the Governors are appointed by the President to represent the public interest generally, and not as representatives of specific interests using the Postal Service. This public interest character ensures a "fair deal" for all postal customers, and may well be the Board's greatest asset. While the Board is fully equipped to direct the exercise of the powers of the Postal Service, it would be helpful to expand their powers over postal pricing, by simplifying and streamlining the postal ratemaking process. The Postal Service is working with the Subcommittee to develop appropriate legislation in this area.

- a. What do you think of the idea that the PMG should still be named and removed by the Governors, but the PMG should serve as Chairman of the Board as well? In most corporations today, the CEO is often the Chairman of the Board. Assuming compensation is adjusted, what do you think of then requiring the Governors to serve in a more full time capacity, particularly in light of the massive size and scope of postal operations?

**ANSWER:** Great caution should be exercised with regard to any such changes, to avoid compromising the public interest character of the Board, or discouraging qualified persons from serving as Governors. Under the current statute, the Board might choose to elect the Postmaster General chairman, but has not done so. (The Postmaster General did serve briefly as chairman in the early 1970s.) Similarly, the Board has considerable flexibility to expand the number of days spent in meetings. Changes of the type suggested could affect the flexibility of the Board's use of its powers, with unpredictable results.

- b. Recently, there have been various news reports on how most corporations today are looking for Board members who have experience in running a major organization of similar size and scope. Along those lines, do you believe there is a need for more explicit qualifications for Board members, or at the very least, providing more statutory guidance to the President in making his or her selections?

**ANSWER:** Any changes in the qualifications of Governors should be considered with care. The current members of the Board bring a wealth of diverse experiences and viewpoints to the meeting table, and are able to view postal issues from a wide perspective. It is not clear that establishing a legislative "recipe" of qualifications for Board members would be more supportive of the public interest.

- 50. The GAO reported in March 1996 that Postal Service expects to be a "global" leader in the international mail market. Toward that end, in 1995, the Postal Service outlined what it views as an "aggressive" strategy to regain market share that includes new service offering, service improvements, and market-based prices. Since the GAO report was released, the International Business Unit announced that it expects to double revenues from international delivery services from \$1.6 billion in 1996 to \$2.9 billion by the year 2000. Please provide us an update on your recent efforts to regain share in the international mail market. What specific steps have you taken to increase revenues from international mail services?

**ANSWER:** The International Business Unit (IBU) of the Postal Service has initiated a number of actions to better meet the needs of its customers and to increase the level of business and revenues which help support its universal service obligations. These actions focus on service quality, customer service, knowledge of the market, improved products, improved pricing, and strengthening partnerships with postal administrations in other countries.

The first priority of the IBU is to take steps to improve service quality. It is developing recommendations to consolidate the number of postal exchange offices involved in processing inbound and outbound international mail and tightening management control and performance measures for these facilities. It will also strengthen the information systems used to support management control and to exchange information with other countries. The IBU is strengthening customer support functions and undertaking market research on customer requirements to better serve customer needs. The new Global Package Link and Global Priority Mail services developed by the IBU reflect this effort to pay closer attention to customer needs and to adapt its services accordingly. The IBU is also pursuing customized pricing arrangements for major customers who can satisfy volume requirements and who can work with the Postal Service on measures to reduce handling costs. Finally, on the basis of market research and customer contacts, the IBU has targeted a limited number of countries to serve as partners for its new Global Package Link service and also for more focused efforts to improve service.

As noted, the IBU has set a target of doubling its revenues from international activities to \$2.9 billion by the year 2000. Despite "aggressive" efforts, the IBU is likely to take longer to reach this revenue target because of the strength of the competition it faces not only from the private sector but also from other postal administrations competing with the Postal Service for international traffic to and from the United States. The aggressive nature of this competition demands a very businesslike response from the Postal Service and a continuation of the efforts outlined above.

- a. The Postal Service likes to cite the international mail market as an example where it has full competitive freedoms and the ability to set prices. If this is truly a competitive arena, it would appear that the Service benefits unfairly from (1) its status as a federal entity and (2) its

exclusive access to foreign administrations as the sole U.S. representative to the Universal Postal Union (UPU), the UN agency that governs international postal service. Why is it fair that the Postal Service act as both regulator and competitor of international courier companies?

**ANSWER:** Neither the Postal Service nor the UPU regulate international courier companies. Indeed, such companies enjoy greater competitive freedom than the Postal Service, to the extent that they are free from requirements to contract for air transportation services with national flag carriers. The UPU regulates the exchange of mail between postal administrations, and the Postal Service's participation in the UPU is as the postal administration of the United States.

- b. Shouldn't the United States' representative to the UPU represent the competitive interests of all American postal and delivery sector companies, including the United States? If not, why not? How can the private sector delivery services have their voices heard in the international arena when an entity with a vested financial interest (i.e., the USPS) is negotiating on behalf of U.S. citizens and businesses?

**ANSWER:** The Universal Postal Union establishes obligations and procedures for postal administrations for the exchange of mail and the establishment of terminal dues. The UPU does not establish obligations or procedures for private delivery companies, nor does it in any other respect regulate such companies. Since the activities of the UPU affect only the postal administrations of member countries, it is fair that the Postal Service should be the sole United States participant in the UPU.

51. As you know, universal postal service is not defined by law. Please explain your definition of universal service.

**ANSWER:** The concept of universal postal service is described in the postal policy provisions of the Postal Reorganization Act. Under 39 U.S.C. 101(a), the Postal Service is directed to "bind the Nation together" by providing prompt, reliable, and efficient services to patrons in all areas, and to render postal services to all communities. Section 101(b) further directs the Postal Service to provide a "maximum degree of effective and regular postal services" to all areas, rural and urban alike. Other elements of the universal postal service obligation are found in 39 U.S.C. 403(a), which directs the Postal Service to serve "as nearly as practicable" the entire population of the United States, and section 403(b), which directs the Postal Service to ensure that postal patrons throughout the Nation will, "consistent with reasonable economies of postal operations", have ready access to essential postal services. Furthermore, to ensure the physical presence of the Postal Service in rural areas, communities and small towns where post offices might not be self-sustaining, 39 U.S.C. 101(b) directs that "[n]o small post office shall be closed solely for operating at a deficit."

- a. One dimension of universal service involves delivering mail to postal customers throughout the nation. About what percentage of residential customers receive mail delivery to their home or property, and what percentage go to a U.S. Post Office or postal facility to pick up their mail? Has the extent of mail delivery to residential customers changed in recent years?

**ANSWER:** Because the Postal Service does not maintain files about how individuals choose to receive mail delivery, it is difficult to provide a precise answer to this question. Our Address Management System database shows approximately 120 million residential deliveries nationwide, and approximately 17 million residential post office boxes. However, we have no information regarding how many residential delivery customers also receive mail delivered to a post office box address.

Residential delivery figures continue to increase by less than 1 percent each year.

52. What is the status of the Service's efforts to establish Mobile Services Antennas on postal property? How many have been erected in 1996; in 1997? How many more do you expect to install? What kind of feedback have you received from the affected communities, and how have you resolved any concerns?

**ANSWER:** After receiving significant demand from wireless operators for use of postal property, the Postal Service selected UniSite, Inc. of Richardson, Texas to aggressively market, construct, and manage antenna installations on postal property for the purpose of creating revenue. UniSite was founded by Mark Fowler, former chairman of the FCC, for the purpose of promoting shared use of monopoles/towers by several wireless operators ("collocation").

Three monopoles have been erected containing 3 antennas plus 20 rooftop antennas.

The total to date including the above are 10 monopoles containing 15 antennas plus 21 rooftop antennas. By the end of the calendar year it is anticipated that this will total 86 monopoles containing 119 antennas plus 30 rooftop antennas.

Our contract is for 150 monopoles. The project will be evaluated to determine if the program will be expanded.

UniSite contacts each municipal Planning Department as operators express a firm interest in a site. UniSite voluntarily submits to local ordinances and zoning if the municipality requires us to do so. Even if the municipality does not wish to subject the project to local ordinances, we will, as is our procedure with all sites, obtain a building permit prior to construction. The building permit eliminates any confusion or misunderstandings as we construct the site.

53. Based on a report from private consultants hired by you to examine the Inspection Service, a report from the GAO, and testimony from the Postal Police and the Chief Postal Inspector, I would like to explore with you the idea that responsibility for the postal police be transferred out of the Inspection Service to Facilities or another management component. For example, in 1995, the Chief Postal Inspector agreed with the Subcommittee's perception that building security is more a function of management than its own audit and investigatory duties, and he stated that the day-to-day operations of the postal police officers could be transferred to postal management with the Inspector General providing oversight and the Inspection Service providing training. In 1994, the GAO reported that other major agencies rely on program offices for building security. Last year, the Postal Police testified to their belief that transferring out from under the Inspection Service would improve the quality of worklife for them. What are your thoughts on this matter? Given the desire of the affected parties, why not move the postal police to another management function such as Facilities?

**ANSWER:** Deputy Postmaster General Michael Coughlin will respond to this question under separate cover.

54. What is the status of the Postal Service's efforts to seek authority from the Attorney General to investigate violations of wire fraud, unlawful access to stored communications, access device fraud, and computer fraud? To what extent is the Postal Service intending to use this authority as the justification for offering security to electronic messaging and thus broadening its role into the e-mail area?

**ANSWER:** Deputy Postmaster General Michael Coughlin will respond to this question under separate cover.

55. GAO reported in 1994 that the Postal Service had numerous weaknesses in its control over the metered mail program. Last year, the GAO reported that postal management has yet to address staffing shortages in the meter program office. What progress has been made in addressing this staffing shortage? How many staff were in the meter program office in 1996, 1997; planned for 1998?

**ANSWER:** In 1994, the staffing devoted to the postage meter program included three USPS staff, one contractor/consultant and a manager with multiple program responsibilities. In 1996, the staffing increased to four USPS staff, three contractors/consultants and two detailed USPS staff from other



departments. In addition, a seven-person systems development staff was in place to support the meter program. Some program responsibilities were transferred to other managers. In 1997, USPS staffing was increased to eight plus three contractors/consultants and two detailed employees. The seven-person systems development team remained in place. All project/program responsibilities not related to postage meters have been transferred from the manager of the meter program to other managers. No changes to staffing are planned for 1998 as the work is stabilizing. Any workload peaks will be supported by contractors/consultants and detailed USPS employees.

56. What is the status of the Phone Card program with American Express?

**ANSWER:** In November 1996, we expanded the FirstClass PhoneCard program to approximately 10,000 post offices throughout the country. The FirstClass PhoneCard is a co-branded product offered by American Express and the Postal Service. American Express provides call center, transaction services, and card production and distribution support. The Postal Service provides the retail distribution for the service.

57. In 1993, you stated to the Senate that the Service was committed to delivering 90 percent of Priority Mail within 2 days by the end of September 1993. At that time, the Service was delivering Priority Mail within 2 days at 84 percent. However, the Service has consistently failed to reach this goal; in 1994, the Postal Service was at 80 percent, and in fiscal year 1996, 81 percent of Priority Mail was delivered within 2 days - not much progress from the time when you set this goal.

Two years ago in February 1995, I asked you how you explained the declining statistics, and what you were doing about it. You stated that the Service was fine tuning a major Business Process Reengineering of Priority Mail, a cost analysis for implementation was being prepared, a number of test sites would be up and running before the end of 1995, and that all of these efforts would ensure that you would reach your commitment of 95 percent of Priority Mail delivered in 2 days. Clearly, the Postal Service has failed to improve its delivery performance for Priority Mail, although the Service continue to aggressively advertise Priority Mail.

- a. When can the Congress expect the Postal Service to make any progress toward reaching its goal of 95 percent of Priority Mail delivered within 2 days?

**ANSWER:** The Postal Service has established a target of 95 percent two-day delivery within the United States for Priority Mail. We are developing the timeline for reaching that target in concert with our strategic planning requirements under the Government Performance & Results Act, and expect to file that plan as required later this year.

- b. How is Priority Mail service, particularly for letters weighing less than 11 ounces, any different than First-Class Mail service for letters sent within a 2 day delivery zone?

**ANSWER:** The question points out one of the underlying reasons a redesign of our Priority Mail system is so important. Currently, Priority is a sub-class of First-Class Mail. Where both First-Class Mail and Priority Mail are committed for two-day delivery, there is no difference in service provided. The difference is in reach. Most destinations that are committed to three-day delivery for First-Class Mail are committed to two-day delivery for Priority Mail.

- c. To what extent does the Service's performance in reaching this long-standing goal in improving Priority Mail delivery foretell Postal Service performance in meeting the goals that will be established in the plans required under the Government Performance and Results Act?

**ANSWER:** The Postal Service will need to make a substantial investment in re-engineering its Priority Mail delivery network, service offering and supporting infrastructure. We have begun that process this year by entering into a dedicated network contract to service this product exclusively. This was a significant, initial step in our plans to retain and grow this product's market share. We fully expect to meet our targets here as well as the others laid out in our strategic planning timetable.

58. The GAO recently reported that of 39,149 post offices, stations, branches, and other outlets, 17,702 (about 45 percent) reported total annual revenues that were about \$1.1 billion lower than their total expenses in fiscal year 1995. Please update these statistics, to reflect fiscal year 1996 data, and provide a listing of the offices, stations, branches, and other outlets that have revenues lower than their expenses.

**ANSWER:** There were 38,212 post offices, stations, branches and other outlets. Approximately 17,507 or 46 percent reported total annual revenues that were \$1.3 billion lower than their total expenses in fiscal year 1996. Attachment V is a list of the offices with revenues lower than expenses.

59. On March 28, 1997 the Postal Service released a Federal Register announcement regarding the Information Based Indicia Program (IBIP). Several issues have arisen from constituent correspondence that relate to the scope and direction of this program.
- a. Approximately postage meter mail accounts for approximately 40 percent of Service revenue, with the vast majority of that meter revenue in First Class. Given that First Class Mail is subject to diversion from numerous sources including electronic funds transfer, electronic banking and the Internet, please share with the Subcommittee the results of any focus group studies or other customer reactions to the IBIP and other changes being proposed to the postage meter indicia.

**ANSWER:** Since concept inception, the Postal Service has worked with postage meter manufacturers, foreign postal administrations, and the public to establish a new postage meter indicia that would reduce risk of counterfeiting. The first phase of this program focused primarily on the technical feasibility of proposed concepts and was conducted in a public forum, consisting largely of interested vendors and product service providers. In the past year alone, the Postal Service has held over 20 meetings with technology vendors on IBIP issues, 15 meetings with academia, over 50 meetings with interested product service providers, and over 20 meetings with customers and mailing industry association representatives. We have also attended over 10 meetings with our foreign postal counterparts to discuss an international standard for a digital indicia. IBIP presentations have been given by USPS representatives in over 18 public forums, with some of the audiences ranging up to 600 in count. When first publicly announced, there were 15 companies interested in participating in the program. Since then over 70 companies have begun attending our public meetings.

As the program has moved from the feasibility phase to the customer perspective phase this past year, we have met with representatives from the following mailer groups: Envelope Manufacturers Association (EMA), Mail Systems Management Association (MSMA), Mail Advertising Service Association International (MASA), Advertising Mail Marketing Association (AMMA), American Bankers Association, Direct Marketing Association, Home Office Association of America (HOAA), National Postal Policy Council (NPPC), Printing Industries of America (PIA), Association of Mailing Equipment Dealers (AIMED), Business Technology Association (BTA), and Bellicore. Additionally, some of the organizations that we have met with include Allstate, World Color Direct, Rodale Press, Atlantic Envelope Company, RR Donnelly, Xerox Corporation, Quad/Graphics, General Services Administration, Office of Attorney General, State of Texas, Hewlett Packard, and UnionCamp.

Multiple customers, large and small, have been involved with current and potential IBIP product service providers as well as the Postal Service through focus groups, telephone interviews, and qualitative surveys. Interested parties have shared the results of their market surveys and focus groups with the Postal Service as well as in public forums. Due to perceived or potential bias with vendor-sponsored surveys, the Postal Service has begun its own sponsored surveys and focus groups through outside services. Most recently the Postal Service sponsored a qualitative survey on IBIP through the Home Office Association of America website and newsletter. After preliminary analysis, we found that over 90 percent of 1,500 respondents stated that they would lease an IBIP product if the Postal Service authorized such a product. Approximately 90 percent also said they would use more Express and Priority Mail if given the convenience of such a product. Additionally, we found that only 12 percent of

the respondents currently use postage meters. Based on this research and information shared by several companies pursuing development of a Small Office/Home Office (SOHO) PC Postage product utilizing an IBIP indicia, the proposed changes to the postage meter indicia, appear to indicate positive customer reaction. We are continuing to measure customer reactions through multiple means, including six planned focus groups during the month of June.

On the basis of the market studies conducted by proposed developers of PC-based postage payment concepts, as well as our own survey, we believe that these new IBIP products will help respond to diversion concerns by providing additional inducement to our customers to use the mails rather than alternative communications. The proposed products may make it easier for customers to address and apply postage to mail at a lower cost than is currently associated with the rental of postage meters. Market surveys shared with the Postal Service indicate a potential market of up to 3 million customers, primarily SOHO businesses. For the most part, these potential customers do not currently rent postage meters, as their mailing volumes are not sufficient to warrant the cost of meters. To the extent that a substantial segment of our customers can be diverted from paying for postage with postage stamps to paying for remotely set metered postage, the Postal Service stands to benefit.

Further witness to our public approach includes the fact that the Postal Service has been developing in a public forum a series of technical specifications, policies, and procedures. All draft proposed documentation has been announced through the Federal Register, with request for public comment and followed by public meetings. To date, over 500 pages of written comments have been received in response to these proposed draft documents. The documents are open to public inspection and the Subcommittee's staff is invited to examine these comments.

- b. In order to control postage revenue in a personal computer based postage meter environment, it is reported that the Service is proposing to remotely access all home based PC meters, without the owners' knowledge, to confirm that no theft of meter based postage has occurred. Please provide the Subcommittee with a legal memorandum regarding the legality of this procedure. What is your reply to charges that such an intrusion into private homes represents a "big brother" type of privacy invasion?

**ANSWER:** There is no plan under consideration under which the Postal Service would remotely access all home-based PC meters, without the owners' knowledge, to confirm that no theft of meter based postage has occurred. Probably this concern results from the following proposal which the Postal Service is considering. Under present Postal Service regulations (39 CFR § 510.25), manufacturers of postage meters are required to conduct physical inspections of the meters at intervals determined by whether the meter is of a mechanical or electronic design and by the postage printing capacity of the meter. In addition, postage meter licensees are required to physically present their manually set meters for Postal Service examination if they are not reset within any three-month period (they are examined when reset). Further, meters that are reset remotely need only be presented for examination annually, provided they are remotely reset at least every three months (DMM P030.2.6d).

Physical inspection of meters by the manufacturers is a costly process—a cost which ultimately is passed on to our customers. Examination of meters by Postal Service clerks is an inconvenience to our customers and, in the coming era of electronic and digital meters, it is doubtful that examination by Postal Service clerks would detect any but the most callous tampering attempts. We are exploring the concept of having the manufacturers' meter resetting systems remotely validate the integrity of certain control data—such as the ascending and descending balances in the meter, meter identification, and cryptographic data each time the meter is reset. An imbalance in register values or unusual cryptographic data might give reason to require a physical inspection of the meter. This concept is appealing as a means of reducing, if not eliminating, physical inspection particularly of smaller-volume meters, thereby saving our customers unnecessary costs and inconvenience. Three of our current postage meter manufacturers are currently using this concept of "remote inspection", and IBIP/PC Postage products would simply follow the precedents already being set. We would expect that just as customers are presently advised that they must use their meter in compliance with the Postal Service inspection and examination requirements, customers using meters involving remote inspection would

be advised that their meter would be inspected in this manner. Incidentally, the current meter manufacturers presently obtain register values of remote meters from their customers and store this data in their resetting computers. The data is made available to the Postal Service where meter fraud is suspected.

While it would not appear to relate to the concern you are addressing, the Postal Service is proposing to require that the PC-based postage payment systems use a Postal Service Address Matching System ZIP+4 CD ROM to correct and update the mailing addresses used by the system. Additionally, this CD will function to "monitor" compliance by the manufacturers with Postal Service requirements. As an example, in a proposed process the CD would be programmed to determine whether the system is using the current Postal Service rates and to prevent the system from operating if it is not using the current rates.

- c. What studies has the Service conducted to determine the added cost to the mailer to print the IBIP? Please provide a synopsis of such studies, if conducted, for the Record.

**ANSWER:** We are very aware of the cost considerations that our customers weigh as they select the postage evidencing mechanism most suited for their personal and business needs. These costs include time, efficiency, and convenience costs associated with acquiring and using postage stamps as well as fees associated with current metering technology. For example, we read in the January 1997 O'Dwyer's PR Service Report that one meter company has raised yearly rental fees on a specific meter model 106 percent in 12 years, while maintenance fees on the base unit rose 170 percent. There are trade-off costs to be considered by both the Postal Service and our customers in all postage evidencing mechanisms. The Postal Service has not conducted any formal cost study regarding IBIP due to the fact that IBIP represents an alternative for our customers' consideration at this time.

- d. Please provide the Subcommittee with the Service's best written estimates regarding the costs to replace or retrofit the existing meter population in North America. Please include in this submission the Service's best estimates regarding the costs incurred in this procedure versus the losses the Service is currently incurring due to meter fraud.

**ANSWER:** The Postal Service has not developed any estimate of the cost of replacing or retrofitting existing meters in the United States (or elsewhere in North America) to reduce the ease with which meters can be manipulated to print unpaid postage or to make the detection of counterfeit indicia practical. While we are aware of the fact that Canada Post Corporation (as well as most of the European Posts) are following a course very similar to ours directed toward the replacement of current meters with safer technology, we are not aware of any study conducted by any Post of the cost of replacing the present meters. For the Posts with whom we have discussed this issue, the question is really one of whether postage meters can continue to be accepted as a secure means of receiving postal revenue. For each, the conclusion is the same as we have reached: the present meter presents an unacceptable risk and, if postage meters are to continue to be an acceptable means of receiving postage, they must be made safer.

Neither the USPS nor, to our knowledge, any other postal administration has in place a system to validate each piece of metered mail it receives--i.e., making sure that postage represented by the indicia has been paid. The lack of such systems is due not only to the cost--a cost which would make the continued acceptability of postage meters questionable at best--but also to the fact that counterfeiting can so easily be accomplished within the present paradigm of meters which legitimately print duplicate indicia.

We know that the current mechanical meters, and to a lesser extent the current electronic meters, are subject to tampering, and that counterfeiting of the indicia produced by each can easily be accomplished without any real chance of detection. We also know that many of our customers prefer to use postage meters, particularly customers who take advantage of the multiple rates that are available for sharing the cost of mail processing. With this knowledge, and encouraged by the two

GAO reports, we are seeking to effect changes that permit our customers to keep meters as an acceptable means of paying postage while reducing our risk of exposure to meter fraud.

Without any system to verify postage meter indicia, the scope of our losses can only be gauged by the cases identified by the Postal Inspection Service based typically upon tips. In the past three years, the Postal Inspection Service has identified losses of approximately \$24 million. We believe this represents only the "tip of the iceberg."

- e. What alternatives has the Service considered short of replacing all existing postal meters or upgrading existing meters? How do the costs of such alternatives compare against the total cost to the mailer and the Service of implementing the IBIP program?

**ANSWER:** The IBIP initiative is a proposed response to the problem of counterfeiting postage meter indicia. At present, meter indicia may be readily counterfeited. Cases have been identified by the Postal Inspection Service where rubber stamps, offset printing, laser-printed indicia scanned into PCs, and color copiers have been used to counterfeit postage meter indicia. Counterfeit copies of existing indicia are very difficult to detect because each meter uses an engraved printing plate to print the indicia and each indicia printed on a given date by a particular meter for the same postage amount will be identical. Accordingly, examination of the mail stream for duplicate indicia would be virtually pointless. Perfectly legitimate, identical indicia can be expected to arrive in the mail stream from numerous points every day. The only solution we have identified through working with academic experts, other postal administrations, meter manufacturers, and the comments we have received through public rulemaking process described above, is IBIP. Under the IBIP approach, every meter would produce a unique indicia every time it prints postage. Accordingly, a process for examining the mail stream for duplicate indicia would then make sense because any duplication of indicia would suggest a cause for further inquiry. For customers who operate small-volume meters, IBIP appears likely to result in reduced metering costs. As noted in response to question 59a, small office and home office customers who find present meters too costly to rent may be attracted to owning PC postage payment software systems. Smaller-volume customers who currently lease low-volume postage meters are beginning to be offered new, lower-cost meters that have resulted from manufacturer development of the IBIP concept and the Postal Service's push to introduce new technology. Larger-volume customers who use meters which are part of mailing systems may be faced with having to replace some or all of the devices which comprise the mailing system in order to use an IBIP-type meter. To date, we have not received for evaluation or approved a high-volume IBIP meter; therefore, we cannot be certain of the extent to which the manufacturers of current meters and mailing systems are taking this factor into account in their designs. There would, of course, seem to be a market incentive involved in designing high volume IBIP meters to adapt to the existing base equipment. However, we have been advised by several meter manufacturers that this is a very difficult concept to design around.

We are sensitive to this issue of indirectly requiring our customers to replace their often owned base equipment in order to use an IBIP meter. To minimize or avoid financial losses, in planning the timing of any required conversion to IBIP meters, we are taking into account the customary capital equipment depreciation schedules our customers use for tax purposes.

There are clear indirect, economic benefits associated with IBIP. It seems clear that the postage meter market is about to diversify as a result of this effort. At the present time there are only four approved meter manufacturers, and one controls approximately 85 percent of the market. New companies will add the benefits of increased competition which, based upon recent product developments by the meter manufacturers, will result in lower postage meter costs. Additionally, losses sustained by the Postal Service as a result of meter fraud can only result in increased postage rates. Fixing the system to discourage meter indicia counterfeiting will help to keep postage rates down and keep the majority of our honest customers from underwriting the mailings of a minority of dishonest customers.

As noted above, the only viable solution we have identified to the vulnerability of the present postage meters to tampering and counterfeiting, other than IBIP, is to no longer accept postage meters as means of receiving postage revenue. We do not know the cost of following this alternative. We do

know that because many of our customers prefer to pay postage through postage meters, any decision to no longer accept postage meters would inconvenience them and could be expected to have an adverse impact on mail volume.

60. Please provide for the Subcommittee a status report regarding the complaint case (C-97-2) filed by the Advertising Mail Marketing Association before the Rate Commission regarding rates charged for certain returned parcels.

**ANSWER:** On June 6, 1997, the Postal Service, at the direction of the Board of Governors, filed a Request with the Postal Rate Commission proposing two changes affecting parcel mailers — establishment of a new classification for return of certain parcels in bulk, and a new means for shippers to pay for forwarding of parcels. The two proposals were filed in an effort to effect speedy improvements in the parcel rate structure, and in settlement of a related complaint filed by the Advertising Mail Marketing Association (AMMA) with the PRC. In recognition of the fact that these proposals had already been partially considered before the Commission, and that settlement seemed a realistic prospect, the Postal Service asked that the Commission expedite the proceeding. The Postal Service and AMMA submitted stipulations which might lead to a prompt resolution of all issues and permit a Commission recommended decision to be issued without delay. In addition, the Postal Service asked the Commission to consolidate its new Request with the pending AMMA complaint docket, C97-2, covering similar issues. The Postal Service and AMMA will continue to cooperate with the affected mailers and the Commission to advance these proposals.

MICHAEL S. COUGHLIN  
Deputy Postmaster General



September 5, 1997

Honorable John M. McHugh  
Chairman, Subcommittee on the Postal Service  
Committee on Government Reform  
and Oversight  
House of Representatives  
Washington, DC 20515-8246

Dear Congressman McHugh:

In response to your May 13 request to Postmaster General Marvin Runyon, enclosed are responses to questions 2, 53 and 54 to the follow-up questions submitted for the hearing record from the April 24 oversight hearing.

If I can be of any further assistance, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Coughlin", written in a cursive style.

475 L'ENFANT PLAZA SW  
WASHINGTON DC 20260-0050  
202-268-2525  
FAX: 202-268-4860

**RESPONSE TO QUESTIONS 2, 53, AND 54  
SUBMITTED TO POSTMASTER GENERAL MARVIN T. RUNYON  
IN FOLLOW-UP TO THE OVERSIGHT HEARING ON APRIL 24, 1997**

2. Earlier this year the Postal Service issued a plan to rectify the pay discrepancy for Postal Inspectors as required by the legislation we passed at the end of the last Congress. However, we understand that the actual pay adjustments are being delayed by a staffing shortage in the Human Resources office; for example, we understand that the same staff that is supposed to make the pay adjustments for 2,200 inspectors also are charged with establishing the Postal IG's new pay system. This pay adjustment no longer appears to be a high priority for the Postal Service. From your perspective, what is causing the delay in processing the pay adjustments as required under the legislation that is now 6 months old? When do you expect the pay adjustments to be processed? Will you make a commitment to detail within Human Resource additional staff, if necessary and feasible, to ensure that the pay adjustments are processed as expeditiously as possible while at the same time making sure that the Postal IG system is established and new hires are processed?

**ANSWER:** Human Resources is coordinating with Payroll as well as Human Resources staff in the Inspection Service and in Corporate Personnel to determine the steps and timeframe for processing pay adjustment personnel actions effective back to September 28, 1996. These actions will bring Postal Inspectors' salaries up what they should be paid under the new legislation. The implementation date of pay adjustments for the Law Enforcement Pay and Locality Rates was June 21, 1997. New salaries were reflected in paychecks beginning July 11, 1997. Additionally, we plan to process a retroactive pay adjustment to the Inspection Service on October 18, 1997, covering the period from September 28, 1996 through June 20, 1997.

While the legislation was passed six months ago, the payroll requirements were not finalized until May 7, 1997. Additionally, the customized nature of the pay system has precluded simple "off shelf" solutions. We have met with various parties for this issue, including representatives of the Inspection Service and the Inspector General staffs. Payroll, Human Resources, and Minneapolis Information Systems Center personnel have been working together to bring closure to this issue.

- a. Earlier this year, Chairman McHugh submitted for your consideration on behalf of a postal inspector three retroactive proposals regarding postal inspector pay comparability. However, we have yet to receive any feedback on these proposals. Please provide your thoughts on these retroactive proposals.

**ANSWER:** All actions will be retroactive to September 30, 1996, the date the legislation was passed. The Postal Service believes that this retroactive date is consistent with both the letter and intent of the legislation. The inspector who initiated the three retroactive proposals has been sent a letter of explanation.

- b. Relatedly, if a postal inspector must retire before you implement the legislation, is he or she still covered under the new salary structure, or must they be on the rolls when it is implemented in order to benefit? We have been told that the pay adjustment will be retroactive to the date of my legislation, now six months old; is this accurate?

**ANSWER:** The pay adjustments will be retroactive to September 30, 1996, the date the legislation was passed. The retroactivity includes actions on inspectors who retire before the Postal Service fully implements the legislation. Inspectors who retired after September 30, 1996, and before implementation, will receive a retroactive pay adjustment and will have their retirement pay adjusted accordingly.



53. Based on a report from private consultants hired by you to examine the Inspection Service, a report from the GAO, and testimony from the Postal Police and the Chief Postal Inspector, I would like to explore with you the idea that responsibility for the postal police be transferred out of the Inspection Service to Facilities or another management component. For example, in 1995, the Chief Postal Inspector agreed with the Subcommittee's perception that building security is more a function of management than its own audit and investigatory duties, and he stated that the day-to-day operations of the postal police officers could be transferred to postal management with the Inspector General providing oversight and the Inspection Service providing training. In 1994, the GAO reported that other major agencies rely on program offices for building security. Last year, the Postal Police testified to their belief that transferring out from under the Inspection Service would improve the quality of worklife for them. What are your thoughts on this matter? Given the desire of the affected parties, why not move the postal police to another management function such as Facilities?

**ANSWER:** In September 1996, the Postal Service contracted with Hallcrest Systems, an internationally recognized security consulting firm, to conduct a national review of the Security Force. One of several recommendations made by Hallcrest Systems was that the primary responsibility, authority, and costs for facility security (including the Security Force) be assigned to plant management. (A copy of the Hallcrest report was provided to the Subcommittee on the Postal Service on May 15, 1997.)

The Postal Service is in the process of evaluating all recommendations from Hallcrest systems. Our goal is to provide adequate, cost-effective security for the Postal Service. We will notify the Subcommittee of any changes to the security program and the Security Force.

54. What is the status of the Postal Service's efforts to seek authority from the Attorney General to investigate violations of wire fraud, unlawful access to stored communications, access device fraud, and computer fraud? To what extent is the Postal Service intending to use this authority as the justification for offering security to electronic messaging and thus broadening its role into the e-mail area?

**ANSWER:** On April 2, 1997, the Chief Inspector submitted a letter containing a draft delegation to the Attorney General requesting a delegation of investigative jurisdiction to the Postal Inspection Service for violations of 18 U.S.C §§ 1029, 1030, 1343, 2701 and 2702 involving electronic communication services provided by the U.S. Postal Service pursuant to 39 U.S.C. § 403.

No acknowledgment of the April 2 letter was received from the Attorney General. On August 20, 1997, J. Michael Boswell, Deputy Chief Inspector, Office of Criminal Investigation and Henry J. Bauman, Counsel for the Inspection Service met with Mr. Marshall Jarrett, Assistant to Mr. Eric Holder. Mr. Holder is the former United States Attorney for the District of Columbia, and he was recently appointed Deputy Attorney General to replace Ms. Jamie Gorelick. The Inspection Service requested the meeting to brief him on the purpose and history of the Inspection Service delegation request. Mr. Jarrett asked for an opportunity to review the material provided to him, and at his request, a follow-up meeting is planned for mid-September.

The Attorney General has authority under 18 U.S.C § 3061 (b)(2) to provide by agreement with the Postmaster General for the enforcement of laws of the United States by the Postal Inspection Service when the Attorney General determines that violations of such laws have a detrimental effect upon the operations of the U.S. Postal Service. A draft of the delegation had previously been shared with both the Director of the Federal Bureau of Investigations and the Director of the United States Secret Service for their respective comments.

The purpose of the requested delegation is not to broaden the Postal Service's role in the e-mail area, but rather to recognize that in recent years the Postal Service has become very dependent upon the use of computers not only as a basic tool in the management of the Postal Service, but also as an

increasingly key element in the ways in which we perform our basic purpose: providing effective and efficient postal services at fair and reasonable rates. In addition, to the extent the Postal Service becomes involved in meeting customers' needs for next-generation postal services, computers will play an important role.

APRIL 24 PMG FOLLOW-UP QUESTIONS  
ATTACHMENTS

USPS Ethics Program and letter from office of Government Ethics	I
Atlanta Postmaster Installation Costs	II
Page 58, 1996 Annual Report	III
NCOA Procedure Guide	IV
Post Office with Revenues Lower than Expenses	V

Attachment V is available in the Subcommittee files for review.

## THE U.S. POSTAL SERVICE ETHICS PROGRAM

### I. Legal requirements for agency ethics programs.

The Postal Service is required to administer an ethics program in conformity with the ethics laws and regulations applicable to the Executive Branch. Under the Ethics in Government Act of 1978, § 402, as amended, 5 U.S.C. App., and Executive Order 12,731, § 301,<sup>1</sup> general oversight and regulatory authority over agency ethics programs have been centralized in the Office of Government Ethics (OGE). In addition to establishing substantive ethics rules in the Standards of Ethical Conduct for Employees of the Executive Branch and certain other regulations, OGE has prescribed rules governing the mandatory content of agency ethics programs, primarily in 5 C.F.R. § 2638.202-203. These requirements divide program responsibilities between the agency head and a designated agency ethics official for each agency.

Under section 2638.202, the agency head is responsible for leadership, resources, and selection of a designated agency ethics official.

Under section 2638.203 of Title 5 C.F.R., the designated agency ethics official shall coordinate and manage the agency's ethics program, which consists of the following elements:

- liaison with OGE
- review of financial disclosure reports
- education and training programs (specific requirements in 5 C.F.R. § 2638.701-704)
- monitoring administrative actions and sanctions
- counseling
- record keeping
- periodic evaluations
- coordination with the Inspector General.

Section 224.47 of Title 39 of the Code of Federal Regulations establishes the General Counsel as the Postal Service's designated agency ethics official.

### II. Postal Service Ethics Program.

In addition to Senior Vice President and General Counsel Mary Elcano, the Postal Service's Designated Agency Ethics Official ("DAEO"), other agency ethics officials include the Alternate Designated Agency Ethics Official ("Alternate DAEO"), Charles

<sup>1</sup> The President is empowered to establish employee conduct regulations by 5 U.S.C. § 7301. By virtue of 39 U.S.C. § 410(b)(1), this section and the regulations apply to the Postal Service.

D. Hawley, Senior Counsel for Ethics, Civil Practice Section, Law Department, and William R. Gilligan, Managing Counsel, Civil Practice Section. Wendy A. Hocking, an attorney and Team Leader for Ethics Training, along with several other attorneys and paralegals in the Civil Practice Section have received ethics training and share various ethics program responsibilities. A number of attorneys in the National Litigation, Legal Policy, and Corporate Law sections of the Law Department have received ethics training and are involved in the various aspects of the ethics program, primarily focused on client training. In addition, 23 people from Postal Service Headquarters serve as the designated ethics representatives for their departments, and receive special training in ethics matters on at least an annual basis.

In the field, the ethics program is aided by the Managing Counsels in the Law Department's eight Field Offices. The Managing Counsels and selected field office staff administer the confidential financial disclosure process for field employees. Moreover, each Performance Cluster has designated Ethics Resource contacts, typically managers in the areas of Human Resources, Finance, and Administration, are designated Ethics Resource contacts.

Following is a summary of the ways in which the Postal Service's ethics program is administered to address each element defined by OGE.

**A. Liaison with OGE.** Liaison with OGE is provided within the General Counsel's office at several levels. The General Counsel has personally met with the Director of the Office of Government Ethics on several occasions. Both the Director and OGE's General Counsel came to the Postal Service to view the 1995 ethics training broadcast with Postal Service officers.

Day-to-day liaison with OGE is provided by the Alternate DAEO, Senior Counsel Charles Hawley; Managing Counsel of the Civil Practice Section, William Gilligan, and by Civil Practice staff attorney Wendy Hocking. Mr. Hawley frequently consults with OGE's General Counsel's office and with OGE's desk officer assigned to the Postal Service. He is an active member of the Interagency Ethics Council, meeting monthly with ethics officials from OGE and other agencies to compare notes and work on matters of common interest. Mr. Gilligan consults with OGE representatives on a frequent basis, and Ms. Hocking has been working closely with OGE's Associate Director for Education and her staff on training matters, as well as participating in the monthly meetings of the Interagency Ethics Council.

At the Postal Service's invitation, OGE's training unit provided ethics training for USPS headquarters departmental ethics representatives in March (topic: general

ethics) and will provide training in October (topic: collection and review of confidential financial disclosure reports) of 1997. OGE will also conduct an ethics workshop for the Law Department's Managers and ethics attorneys on May 1, 1997.

The Postal Service annually sends the maximum allowed representation (most recently 10 people) to OGE's 3-day Annual Ethics Conference, to learn about OGE requirements and recent developments in government ethics, participate in training seminars, and network with fellow government ethics professionals from OGE and from other Executive Branch agencies. The Postal Service's delegation has consisted primarily of ethics professionals from the headquarters and field components of the General Counsel's office, together with representation from Purchasing and from the Inspection Service.

Annually, the General Counsel's office has filed a required statistical report in the format specified by OGE, due at the end of January. This report provides OGE with data concerning agency programs in the areas of financial disclosure, training, counseling, and other matters.

**B. Review of Financial Disclosure Reports.** Two reports are collected from different groups of employees: (1) SF 278 (public report), and (2) OGE 450 (confidential report). The Postal Service's procedures for filing and review of these reports as developed since 1993 were codified in a Management Instruction that was issued and disseminated in January 1997.

**1. SF 278.** Public reports are required to be submitted by all employees serving in positions paid at a rate equal to 120 percent of the minimum rate for GS-15. (This filing threshold is currently \$85,073). The reports are filed when an employee first enters such a position, annually thereafter in the spring, and again upon leaving the Postal Service. Corporate Personnel Operations notifies the filers, who return the completed reports to the Civil Practice Section of the General Counsel's Office, where they are reviewed and certified. Approximately 725 postal employees are currently required to file the public reports.

SF 278 is also used by nominees for Governor of the Postal Service. The Alternate DAEO reviews each of these reports in coordination with the Office of Government Ethics and the White House Counsel's office, prior to submission of a nomination to the Senate. Afterwards, the Alternate DAEO has provided an evaluation of the report if requested by the Senate committee considering the nomination. Once a Governor is confirmed, he or she submits an annual report which, though confidential by law, uses SF 278. These reports are reviewed by the Alternate DAEO.

Conflict Check Procedures. As explained in the Management Instruction on Financial Disclosure Report Procedures for the U.S. Postal Service that was issued in January 1997, federal criminal law prohibits postal employees from knowingly participating in any particular matter that will have a direct and predictable effect on their own financial interests, or those of certain family members, business associates, and organizations. It is the personal responsibility of each employee to comply with this law, and to identify and avoid conflicts of interest. Employees receive training regarding their ethics obligations, and are encouraged to seek information and advice with regard to ethics matters from the DAEO, Alternate DAEO, and other agency ethics officials.

To assist employees in detecting potential conflicts between certain postal business matters and the reported holdings (as required by SF 278 forms) of the postal Governors, the Postmaster General, and the Deputy Postmaster General, the General Counsel has developed a process for performing conflict checks. Up-to-date information is obtained monthly from the Marketing, Finance, and Purchasing areas, and from the Board's Secretary and various management committees, with respect to business matters being contemplated or pursued by the Postal Service. The Civil Practice Section then performs conflict checks prior to management meetings and the monthly Board of Governors meeting. Software has been installed that allows conflict of interest checks to be performed by searching databases of individuals' coded financial information for "hits" with business names. If a search should reveal a match, the individual is contacted immediately and advised to recuse himself or herself from all official matters pertaining to that business until the situation can be fully analyzed.

In addition to the computerized checking process, Law Department ethics staff have initiated screening processes to ensure that executives who have executed recusal statements do not participate in postal business that involves or affects any of their actual or imputed holdings. The screening process involves making the direct reports and staff of the executives aware of the recusal statement and the businesses listed therein so that postal matters involving those businesses will not come before the executives until and unless it is determined that there will be no actual or apparent conflict, or a waiver is received allowing participation in the matter.

As an added means of detecting potential conflicts of interest, all the Law Department sections coordinate regular meetings with their client organizations to identify pending and proposed postal business matters and the parties involved in them. Conflict checks are then performed using this information, and matters

appearing to involve a potential conflict for a governor or officer will be identified, researched, and resolved at an early stage. Whenever appropriate, the General Counsel will seek waivers and certificates of divestiture from OGE for postal officials.

**2. OGE 450.** The Postal Service is required to obtain confidential financial disclosure reports, using Form OGE 450, from employees paid at levels below that for filing SF 278, if their positions involve substantial responsibilities in contracting, law enforcement, or certain other matters. There are currently approximately 6,400 employees in this category. Reports are to be filed upon entering such a position, and annually on October 31. Under existing practice, as codified by the Management Instruction, each Vice President determines which employees should be directed to file, from headquarters and headquarters-related units. Headquarters and headquarters-related units file their forms with their Vice President, each of whom has designated an ethics representative to receive, review, and maintain the reports, with advice and assistance from Civil Practice. If the ethics representatives themselves are required to file OGE 450, their forms are reviewed and maintained by the Civil Practice Section. By request of the Chief Operating Officer, Human Resources at headquarters maintains a standardized list of positions required to file from field organizations. For field employees, Human Resources initiates a mailing from the Minneapolis Information Systems Service Center (iSSC) notifying those required to file reports. Field employees file their reports with the assigned field counsel office, which reviews and maintains the reports.

**Kit, Formats and Review Training.** To assist both headquarters ethics representatives and field counsel in performing their functions, since 1993 the Law Department has annually distributed to them a detailed Kit for Collecting Confidential Financial Disclosure Forms. These kits contain: a cover letter from the DAEO; checklists showing deadlines for collection and review; a transmittal letter from the DAEO to filers; four summary report forms to return monthly to show the progress of their work, and a final report form; a sample delinquent filer letter; and other suggested strategies for following up with delinquent filers. The summary reports are used by Civil Practice to prepare the annual statistical report required by OGE each January. In the fall of 1997, all headquarters ethics representatives and field counsel are scheduled for an additional four-hour OGE training session at Postal Headquarters on the collection and review of OGE 450 forms.

**C. Education and Training.** OGE regulations require two types of training: (1) introductory familiarization for new employees, and (2) annual training for filers of financial disclosure reports. Each of these types of training must be at least one



hour in duration. The Postal Service also provides other supplemental ethics training.

**1. Introductory Familiarization.** When the current OGE training regulation took effect in 1992-1993, the Postal Service was required to make certain information available to its more than 700,000 employees, and to provide each employee with one hour of familiarization with the Standards of Ethical Conduct for Employees of the Executive Branch. This was accomplished through several actions. First, the General Counsel's office prepared a letter that was signed by the Postmaster General and mailed to all employees, providing notice of the Standards, announcing the forthcoming familiarization training, and providing the names and telephone numbers of ethics advisors. Next, with professional assistance, the General Counsel's office prepared a video training tape, "Ethics and You," which was distributed throughout the Postal Service for showing to all employees. Several thousand copies of the Standards were mailed to offices around the country to be available to employees upon request, in connection with the training.

Subsequently, the General Counsel's office assisted the Corporate Training organization to produce a new module on ethics familiarization to be included in training new employees. For the past year, course materials have included an edited version of the "Ethics and You" video, written materials for the instructor, and handouts for the employee including a summary of the Standards of Ethical Conduct, a list of USPS ethics advisors, and information about where to consult the full text of the Standards. In addition, the full text of the Standards of Ethical Conduct can be accessed and downloaded by employees on the Postal Service's Web site. Other ethics information, including a training calendar and updated reference lists, will be added to the Web site during the next few months.

**2. Annual Training for Filers.** Beginning in 1993, OGE regulations have required that all filers of financial disclosure statements receive at least one hour of ethics training every year. The General Counsel's office has coordinated each year's training, which has been accomplished through the production of Postal Satellite Training Network (PSTN) broadcasts for all Postal Service financial disclosure filers at headquarters and in the field. In 1993, the training featured a panel of ethics professionals answering questions in interactive call-in format. In 1994, an ethics training video produced commercially for the Department of Defense was modified for the Postal Service broadcast. In 1995, ethics counsel from the General Counsel's office served on an interagency committee which produced a Government-wide training broadcast, with an interactive call-in component. In 1996, the General Counsel's office coordinated a satellite broadcast using selections from a second government-wide broadcast earlier in the year and adding

postal material presented by the General Counsel and other Postal Service officers, including the Chief Operating Officer, the Chief Postal Inspector, the Vice President for Human Resources, and the Vice President for Purchasing.

Each year, video copies of the training are produced for use by those employees unable to participate in the broadcast. Each organization is assigned responsibility for scheduling its own filers to receive the training, and for reporting the results back to the Postal Service's Corporate Training organization. In 1996, the ethics broadcast was viewed either live or on tape by at least 7,472 employees in fulfillment of their annual ethics training requirement, a significant increase over 1995, when 4,346 employees saw the broadcast.

Since 1994, the General Counsel or her staff has provided annual ethics training to the Board of Governors at one of its regular meetings. In 1996, ethics training was provided to the Board of Governors at its December meeting.

**3. Voluntary Training.** The General Counsel's office and other offices in the Postal Service have sponsored numerous other ethics training sessions to focus on specific needs.

**a. Ethics resource training.** In 1993, following introduction of the new Standards by OGE, the General Counsel's office recommended to management that a full day of ethics training be provided to individuals throughout the field organizations who could then serve as ethics resources for their organizations to field routine questions and channel issues needing legal review to the appropriate field counsel. Field management designated about 170 employees to add the ethics resource function to their duties. Attorneys from the General Counsel's office trained them at several locations around the country. Also in 1993, about 20 headquarters ethics representatives were named by the Vice Presidents and trained by the Law Department.

In March 1997, current headquarters ethics resource people received an ethics overview training. They are also scheduled in October for specific training regarding the confidential financial disclosure report process. In addition, Law Department Headquarters and Field attorneys will receive refresher training in Ethics on May 1, 1997.

**b. Procurement ethics training.** Developments on several high-profile contracts have reminded the Postal Service of the need to devote special attention to ethics in the procurement context. In 1993, the Purchasing, Transportation, and Facilities organizations provided a day of specialized ethics training to all of their responsible

personnel nationwide, about 1,100 trainees. Also in 1993, procurement authority and responsibility in these areas was consolidated under one Vice President. The General Counsel's office assisted in the development of the training course, which was presented by outside trainers under contract. In 1994, the same group received 2 1/2 hours of follow-up ethics training. In 1996, working with another federal agency, Purchasing enhanced its training program by developing some interactive computerized training focusing on procurement-related issues. The computer-based training was subsequently adapted by Corporate Training and Development for use in connection with new employee orientation on a nationwide basis. Moreover, the new purchasing manual makes procedures uniform in all areas of purchasing.

**c. Filer training.** In 1993, when the SF 450 forms developed by OGE were first in use in the Postal Service, the Alternate DAEO provided an interactive training session called "Cover Your Assets," broadcast on PSTN, on how to understand and complete the form. The broadcast was intended for all interested filers of SF 450. "Cover Your Assets" is maintained as an ethics information resource in OGE's Ethics Information Center.

In addition, supplemental instructions are sent to SF 450 filers with their 450 forms, and to OGE 278 filers with their 278 forms; a list of ethics contacts is included with both packages.

**d. Requested training.** Each year attorneys from the General Counsel's office, both at headquarters and in the field, have provided several ethics training sessions for particular groups upon request. Since 1995, teams established to work on several important contracting assignments have requested and received ethics training, as has the Inspection Service's forensics section.

In 1996, a cross-functional ethics team was created in the Law Department to develop customized training programs for Postal Service departments. This year specialized ethics training has already been completed for the Marketing, Finance, and Human Resources Departments.

**e. Ethics news features.** Ethics counsel at headquarters distributed an ethics newsletter in 1995; another is planned for 1997. Since 1996, the Law Department has used Postal Link (an e-mail system for 20,000 postal managers) to feature various timely ethics topics and reminders, such as a reminder about gift restrictions that was featured at the beginning of the 1996 holiday season. Postal Link will be frequently utilized to inform managers about upcoming filing deadlines, raise

awareness of ethics issues, and widely disseminate information about ethics training and contacts.

**f. Officer training.** In 1994, after the new OGE Standards were introduced, the Alternate DAEO provided special face-to-face training sessions for the officers of the Postal Service, after providing them with a written summary in advance. While similar in content to the training for other filers of financial disclosure reports, the officer training provided an opportunity for more questions and interchange within small-group settings. This training has continued through the present, and was given in 1996 to three new Vice Presidents and the Inspector General.

**D. Monitoring administrative actions and sanctions.** The General Counsel's office maintains direct control over all formal divestiture actions under the ethics rules, and over late-filing fee assessment and collection for SF 278 filers. The Alternate DAEO and the Inspection Service's Independent Counsel have been meeting quarterly to review the status of any ethics matters referred by the General Counsel to the Inspection Service for investigation. Summary sheets for ethics matters are maintained by the General Counsel's Office based upon information provided by the Inspection Service. The Chief Inspector sent a letter to all inspectors in early 1997 reminding them of their obligation to notify the General Counsel and the Office of Government Ethics every time they make an ethics referral to the Department of Justice, and to provide follow-up information on the referrals. The General Counsel has sent a letter to the Inspector General, also, to coordinate the referral of matters to the Department of Justice and the Office of Government Ethics.

**E. Counseling.** The General Counsel's office makes ethics counseling and advice available upon request through the Alternate DAEO at headquarters and through each of the eight field legal offices. All employees have the right to request counseling. Counseling covers any matter arising under the Standards of Ethical Conduct for Employees of the Executive Branch, the Postal Service's supplemental standards, and criminal statutes pertaining to ethics. The ethics representatives for each Vice President at headquarters and about 170 specially trained ethics resource personnel in the field are available to facilitate and feed into the General Counsel's ethics counseling program. As a very large part of his daily work, the Alternate DAEO routinely provides ethics advice for the officers of the Postal Service and other headquarters personnel on such matters as OGE's "widely attended gathering" exception to the gift rule, gifts or contemplated gifts by fellow employees, gifts received from international governments, conflicts of interest, outside employment and post-employment discussions, and endorsements or recommendations for charities, non-profit groups, or the like. Several of OGE's

regulations provide for requests by employees for rulings or waivers by the DAEO or her representatives on ethics matters, as do the Postal Service's own rules on outside employment interests and spousal service as a highway transportation contractor. Such rulings are issued by the DAEO or Alternate DAEO, or by attorneys in the field offices usually in consultation with the Alternate DAEO.

Due to the critical importance of ethics compliance in procurement matters, in 1995 the General Counsel directed the formation of an Ethics Advisory Council to remain available to explore and resolve all ethics issues surfaced in connection with major procurements. This Council consists of the Alternate DAEO; the Chief Counsel, Purchasing; the Manager, Field Support and Integration; and the Manager, Headquarters Purchasing. The Ethics Advisory Council was responsible for formulating remediation strategies in connection with issues identified in several recent contracts.

**F. Record keeping.** OGE's requirements for maintaining financial disclosure and ethics advice files, together with its requirement for annual statistical reports on financial disclosure, training, and other program elements, define the primary record keeping need. Since the Civil Practice Section reviews all SF 278 reports, that section maintains the files and records pertaining to those reports. OGE 450 files are maintained by the reviewers on-site in their respective headquarters departments, and by the Field Legal Offices. Requirements for the security of these files are contained in the associated Privacy Act Systems of Records in the Administrative Support Manual, and are summarized in the Management Instruction that was issued in January 1997. For headquarters and related units, each Vice President and his or her designated ethics representative have review and record-keeping responsibility for OGE 450s collected within their respective organizations. For field units, the field law offices have performed these functions, dating prior to 1986 when field counsel reported directly to the former Regional Postmasters General. Both the headquarters ethics representatives and the field counsel are required to report summary statistics to the General Counsel's office for use in monitoring compliance and reporting to OGE. Report formats are in the Kits supplied in advance of each fall's OGE 450 filing cycle. Records of ethics advice and counseling are maintained by the legal office providing the advice, including the Civil Practice Section and each field legal office.

**G. Periodic evaluations.** The main elements of OGE's current requirements for federal agency ethics programs are a product of sweeping government-wide reform and standardization of both substantive and administrative ethics requirements introduced in 1992-1993. These changes came at a time when the Postal Service was undergoing its own restructuring. OGE's newly standardized SF 450 disclosure

requirement took effect in the fall of 1992, when the widespread staffing changes and reassignments made it impractical to determine who should file, in time to comply. Early in 1993, OGE's new substantive Standards of Ethical Conduct for Employees of the Executive Branch took effect, superseding individual agency standards. Also in 1992-1993, OGE's training rules applied for the first time, requiring one-time introductory familiarization with the new Standards for all existing employees, similar familiarization subsequently for all new employees as hired, and annual ethics training for financial disclosure filers. This entailed familiarization training for over 700,000 postal employees. Accordingly, for 1993 and the next few years, the Postal Service's administrative task was to adjust to the new generalized requirements newly applicable to all agencies. The efforts of the DAEO and her ethics staff focused on getting sufficient systems in place to accommodate these requirements.

At the time of the 1992 reorganization and shortly after, the General Counsel made several changes to the management of the ethics program. She added an intermediate level manager (then the Chief Counsel, Ethics and Information Law, and now the Managing Counsel, Civil Practice) to assist the Alternate DAEO in directing the day-to-day ethics program. She requested each headquarters Vice President to designate a permanent ethics representative to work with her ethics staff to accomplish required financial disclosure, ethics training, and ethics counseling tasks. The Chief Counsel, Ethics and Information Law, and the Alternate DAEO then met individually with each Vice President's ethics representative to explain the OGE requirements, work out with them how to achieve the requirements within their organizations, and provide written instructions. Included in these discussions was a consultation about each organization's evaluation of which positions to designate as having to file Form 450. The current ethics representatives received overview ethics training in March 1997, and will receive training on the collection and review of Forms 450 in October 1997. Both training courses will be conducted by OGE training staff at Postal Service headquarters.

Early in 1994, after the first training and filing cycle, the General Counsel provided to each Vice President an Ethics Compliance Report for the VP's organization, summarizing that organization's progress in completing training and financial disclosure requirements. Several Vice Presidents whose organizations had not completed the requirements or had not reported their statistics were provided deficiency notices, requesting further action.

From 1993-1995, the General Counsel's office organized periodic general meetings of all headquarters ethics representatives to plan for annual filing and training

cycles and to answer their questions. This will be repeated in 1997. A cross-functional Ethics Team, consisting of an attorney from each of the Law Department's sections, meets regularly to focus on ongoing ethics training activities, and to plan and develop the annual ethics broadcast for 1997.

The OGE-initiated changes and the Postal Service's internal restructuring also necessitated a review of Postal Service ethics regulations to determine what needed to be revised. A detailed "Catalog of Ethics Responsibilities" was prepared late in 1993, listing all external regulatory requirements in detail and summarizing who currently performed which tasks in the Postal Service, and what internal regulations needed revision. Afterwards, the General Counsel's office prepared a revision of the Postal Service's Supplemental Standards of Ethical Conduct, obtained the required approval from the Director of OGE, and published in the Federal Register for public comment. A final rule was published in the Federal Register on September 11, 1995, for codification at 5 C.F.R. Part 7001. At the same time, the General Counsel's office published a separate document in the Federal Register revising the Postal Service's Rules of Conduct regulations codified at 39 C.F.R. Part 447, formally repealing material superseded by OGE's Standards of Ethical Conduct for Employees of the Executive Branch, and conforming the regulations to the new Postal Service supplemental standards.

As noted in section E, above, in 1995, the General Counsel required the formation of the Ethics Advisory Council to quickly and comprehensively address any ethics issues that surface as major procurements are developed. The General Counsel's office also developed a new ethics clause for use in personal services contracts retaining individuals to work on procurement matters.

**H. Coordination with the Inspector General.** The General Counsel and the Inspection Service have ongoing communications, as well as documentation of the status of ethics matters referred by the General Counsel to the Inspection Service for investigation. The Alternate DAEO and other ethics attorneys meet quarterly with the Inspection Service's Independent Counsel to address those needs. In 1996, the Inspection Service's tracking system was adapted to track ethics-related offenses that are referred to the Department of Justice for possible prosecution. The tracking information is provided to the General Counsel and to OGE on a regular basis. The General Counsel will similarly coordinate communications and documents regarding ethics matters with the new Inspector General and the IG office.

APRIL 1997

FROM US OFFICE OF GOVT ETHICS

(THU) 03.06.97 16:45/ST. 16:44/NO. 3561462668 P 2



United States  
**Office of Government Ethics**  
 1201 New York Avenue, NW., Suite 500  
 Washington, DC 20005-3917

March 6, 1997

Mary S. Elcano  
 General Counsel and Vice President  
 United States Postal Service  
 475 L'Enfant Plaza, SW., Room 6006  
 Washington, DC 20260-1100

Dear Ms. Elcano:

The U.S. Office of Government Ethics (OGE) recently conducted its third follow-up review to determine the actions taken on the recommendations contained in OGE's August 9, 1995 report of its review of Postal Service's ethics program.

We have determined from the results of our third follow-up review that all recommendations have been implemented.

We appreciate the efforts put forth to strengthen the ethics program and commend you and your staff for your cooperation in implementing our recommendations.

Sincerely,

A handwritten signature in cursive script that reads "Jack Covaleski".

Jack Covaleski  
 Associate Director  
 Office of Agency Programs



## SUMMARY OF POSTMASTER'S INSTALLATION

PROVIDER	Purpose	Direct Costs	Video Costs
GROUP COMMUNICATIONS	Video shown at Installation		\$19,351.05
DELECTABLES	Catering Service	\$4,888.00	
CORPORATE AUDIOVISUAL SERVICE	AV Equipment	\$4,000.00	
ARMADA VAN RENTAL	Passenger Van	\$213.20	
AMERIPRESS	Programs	\$820.65	
AMERIPRESS	Thank You Notes & Envelopes	\$224.61	
BROOKFIELD UNIFORMS	Uniforms for clerks/carrier	\$820.00	
THE AWARDS CENTER	Engraving Services	\$250.00	
SOUND VIDEO	Installation video duplication		\$111.93
SOUND VIDEO	Installation gifts for podium guests	\$104.87	
SUPER SIGNS	Replica of giant post card	\$150.00	
PEACHTREE CORPORATE CONCEPTS	Gifts for podium and special guests	\$502.00	
PEACHTREE CORPORATE CONCEPTS	Atlanta Skyline Gift	\$80.00	
AMERIPRESS	Invitations for Installation	\$445.26	
AMERIPRESS	Corrections to Invitations	\$35.75	
SMYRNA FRAME & ART GALLERY	Commission Framing	\$217.15	
N. WASSERMAN & COMPANY	T-Shirts for Herndon School Participants	\$154.15	
JOANNE'S HALLMARK	Gift Wrappings	\$9.90	
OLD GLORY INC.	Pins for Student Bags	\$41.88	
TECHNE FILMS LIMITED	Photographic Services	\$688.00	
RIVERSIDE VIDEO PRODUCTIONS	Video Production	\$445.00	
KIRBY HAMILTON & CO	Location Beta Shoot & Stock		\$1,335.00
ARISTOCK	Skyline Die Cut	\$600.00	
<b>Total</b>		<b>\$14,670.42</b>	<b>\$20,797.98</b>

**Financial Statements****Attachment III**

STATEMENTS OF CHANGES IN NET CAPITAL DEFICIENCY	Years ended September 30, 1996, 1995, and 1994 (dollars in millions)		
	Capital Contributions of U.S. Government	Deficit Since Reorganization	Total Net Capital Deficiency
Balance, September 30, 1993	\$ 3,034.1	(\$ 8,081.8)	(\$ 5,047.7)
Net Loss	—	( 913.6)	( 913.6)
Capital Equipment Transfers to the U.S. Government	( 0.2)	—	( 0.2)
Balance, September 30, 1994	3,033.9	( 8,995.4)	( 5,961.5)
Net Income	—	1,770.3	1,770.3
Capital Equipment Transfers from the U.S. Government	0.2	—	0.2
Balance, September 30, 1995	3,034.1	( 7,225.1)	( 4,191.0)
Net Income	—	1,567.2	1,567.2
Capital Equipment Transfers from the U.S. Government	0.3	—	0.3
Balance, September 30, 1996	<u>\$ 3,034.4</u>	<u>(\$ 5,657.9)</u>	<u>(\$ 2,623.5)</u>



## National Change of Address



### Procedure Guide

NATIONAL CUSTOMER SUPPORT CENTER  
UNITED STATES POSTAL SERVICE  
6060 PRIMACY PKWY STE 201  
MEMPHIS TN 38188-0001

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**OVERVIEW &****NCOA Overview****PURPOSE**

The United States Postal Service (USPS) developed and implemented the National Change of Address (NCOA) system as a means of reducing the volume of undeliverable-as-addressed mail and improving the quality of mail entering the mailstream.

Under the NCOA system, all change-of-address (COA) information submitted to the USPS by relocating customers is telecommunicated daily from over 210 Computerized Forwarding System (CFS) sites to the USPS's National Customer Support Center (NCSC) in Memphis, Tennessee. The NCSC consolidates the COA information and standardizes it by matching the COA information against the National ZIP+4 File. The resulting standardized NCOA master file, consisting of more than 110 million permanent COA records, is provided to a number of private companies operating under a licensing agreement with the USPS. The licensees offer NCOA services by accepting mail lists from their customers and providing address standardization, ZIP+4 coding, and COA information when an authorized name and address match is attained as part of the NCOA service. Every two weeks, licensees receive master file updates from the NCSC to ensure that the mailing lists they correct are as accurate as possible.

Provision of new address data from the NCOA file is controlled by strict name- and address-matching logic. No NCOA address information is provided without a match to a name and address record already present in a customer's input file.

A Processing Acknowledgment Form (PAF), provided by the licensee, must be signed by the mailing list owner before processing takes place. When a mailing list is presented to an NCOA licensee through a third party (i.e., a broker) for NCOA processing, the signature of the list owner must be on the PAF.

**Purpose**

This manual outlines appropriate procedures for the NCOA Department to follow for most aspects of NCOA processing and describes USPS and NCSC procedures for various NCOA issues, including the following:

- licensee advertisements, literature, and method-of-sale information
- copyright guidelines
- customer, mailer, and licensee inquiry response
- licensee audits and audit scoring
- NCOA processing guidelines

**DOCUMENTATION  
& COPYRIGHT  
PROCEDURES**
**Advertisements, Literature, and Method-of-Sale Information**

All licensee literature, advertisements, or method-of-sale information that references NCOA services must be reviewed by the USPS for approval before the licensee may publish the material. USPS response to the licensee regarding documentation is due within 20 working days of receipt. All documentation will be evaluated by the NCOA Department utilizing the guidelines outlined in the current NCOA License Agreement.

After the licensee's documents have been evaluated, a Review Analysis Form (RAF) outlining the status of the documentation is prepared and returned to the licensee (see Figure 1). The RAF is retained permanently by the USPS in the licensee's centralized file. If the advertisement materials are not approved for publication or release, the licensee is required to revise and immediately resubmit these materials for re-evaluation. All licensee literature that the NCSC receives will be retained in the licensee's centralized file.

Licensees are required to include the words "Nonexclusive Licensee of the United States Postal Service" not more than once in each advertisement. Each reference in the advertisement to the copyright owned by the USPS must include the phrase "© USPS 19\_\_." Licensees may not use any USPS trademark or service mark without written permission from the USPS. If authorization to use a USPS trademark or service mark is obtained, the mark must be identified as "© USPS." Licensees are not permitted to suggest any business or trade name association with the USPS or the United States government. Licensee literature may in no way suggest that the licensee or the licensee's agents are employed by or represent the USPS. In addition, when notice of payment method is made, it should state that all payments for NCOA matching services must be made payable to the licensee's trade name. Any reference to the price of NCOA matching services should clearly state that prices are established and controlled by the licensee and not the USPS.

Copyright and payment method disclosure requirements are intended to cover any and all public disclosures concerning a licensee's NCOA matching services up to and including radio, television, magazine, newspaper, and direct-mail solicitations. Failure of a licensee to comply with these guidelines will result in suspension or termination of the NCOA license.

NCOA ADVERTISEMENT REVIEW ANALYSIS	
NAME	
LICENSEE NAME	
LICENSEE ADDRESS	
CITY ST ZIP+4	
<p>Thank you for submitting your NCOA advertising pieces for review. The following is the status of your documents subsequent to review:</p>	
<p><input type="checkbox"/> Your documents have been approved as submitted</p>	
<p><input type="checkbox"/> Your documents have NOT been approved as submitted. Please revise the following areas and resubmit immediately:</p>	
<ul style="list-style-type: none"> <li>• "Nonexclusive Licensee of USPS"</li> <li>• Required Text Document</li> <li>• Postal Logo</li> <li>• Marketing Language</li> <li>• Processing Acknowledgment Form</li> <li>• Pricing</li> </ul>	
<p>Other _____</p> <p>_____</p> <p>_____</p> <p>_____</p>	
<p>If you have any questions, please feel free to contact Shelley Hughes of my staff at 1-800-331-5746.</p>	
<p>Sincerely,</p>	
<p>Michael L. Murphy Manager, National Customer Support Center</p>	

Figure 1. Advertisement Review Analysis Form

**CUSTOMER  
INQUIRIES**

The NCOA Department at the USPS National Customer Support Center (NCSC) in Memphis, Tennessee, maintains the National NCOA Database. Therefore, the NCOA Department receives inquiries concerning NCOA data and its uses from numerous sources. NCOA inquiries may be made via telephone, letter, or fax, and each inquiry is handled independently. All information gathered during the course of an investigation is permanently retained in a centralized file that is organized by analysts' last names. Typical sources of NCOA inquiries include the following:

**Inquiry Source****Inquiry Example****Customers**

A customer receives our phone number or address from one of his/her mailers and wants to know how or why we changed his or her address. **NOTE:** *Many customers are unaware that the NCSC is a branch of the USPS.*

**Mailers**

Mailers generally call for one of two reasons: 1) They want to know how they can take advantage of our services, or 2) They used NCOA and do not understand the results of their mailing.

**Licensees**

Licensees notify the NCOA when they suspect a data problem with the file, a customer has notified them of a problem, or a mailer is complaining about the service and the licensee cannot explain the results.

**Freedom of  
Information**

These individuals are concerned about their rights to privacy and seek to question the USPS policy on providing address change notification to mailers.

**USPS**

If a USPS account representative or consumer affairs official is unable to ascertain why a customer's mail is being misdirected, the individual will contact the NCSC for assistance. On occasion, the Postal Inspection Service will ask for assistance in conducting research for an ongoing investigation.

Due to the proprietary nature of the NCOA database, the NCSC prefers that any request for research to be conducted by an analyst be made in writing. The written request should describe the nature of the inquiry and the old and new addresses involved and should include the requester's name. Requests for research can be made via telephone, but **the analyst will not release new address information over the phone.** When a call is received and an analyst researches an inquiry using the NCOA file, that analyst is only permitted to discuss the facts of the case as revealed by the data of the NCOA file. If a customer wants to know "where his or her mail is being forwarded," the analyst may only describe why the new address information was provided to the mailer and the steps necessary to correct the error.



**INQUIRY  
RESPONSE  
PROCEDURE**

Every inquiry made to the NCOA Department must be investigated by an analyst in a timely manner and responded to immediately. At the time an inquiry is received, the receiving analyst must prepare a Customer Inquiry Form (CIF) (see Figure 2 on page 7). If the inquiry is made in writing, the letter or fax should be attached to the CIF; otherwise, it is the analyst's responsibility to provide detailed notes. When the inquiry has been thoroughly researched and resolved, the CIF is filed in a centralized folder for future reference.

**Sample Inquiries and Responses**

The following scenarios are a sample of the kinds of inquiries or problems that the NCOA Department encounters and the typical responses to the problems. The scenarios do not cover the entire scope of calls received by the NCOA analysts; they are provided as a basic overview of the responsibilities of NCOA analysts. Obviously, each inquiry is different, and all inquiries are handled on a case-by-case basis.

**Example 1:** A customer calls to report that we are "misdirecting" his or her mail and that he or she would like the problem resolved.

**Response 1:** The analyst must pull the record that has allowed the licensee to update a mailer's list from the NCOA database. The analyst will then describe the reason for the change to the customer and identify how the correction will be made.

For instance, a customer's address was changed because an individual(s) moved out of the residence and filed a family move order. The customer is notified that a family move order was filed, which caused the licensee to match only to the last name on the move order. The customer is told that we will immediately change the record to an individual move order, which means that licensees must match on all other name components. The customer is also informed that the change will prevent the problem from reoccurring, he or she must contact those mailers who are sending mail to the incorrect address.

**Example 2:** A mailer complains about the amount of returned mailpieces received following NCOA processing of a mail list.

**Response 2:** The analyst must first gather data, such as the identify of the licensee who completed the NCOA processing; what other services were included; and whether the customer contacted the licensee. The analyst will also request multiple copies of the mailpieces for completion of the necessary research. When the mailpieces are received, the analyst will attempt to determine why matches could not be made using the NCOA matching guidelines.

For example, the analyst may determine that a match wasn't made because the input address was missing an apartment number, and the NCOA file contained an apartment.

- When research of each record is complete, the analyst will contact the mailer to explain the results of the research and identify any required action that the NCSC or the mailer will need to take.
- Example 3:** A licensee calls to report that they have discovered a problem with data on the NCOA file.
- Response 3:** The analyst will gather all pertinent data regarding the problem, which records are affected by the problem, and how the licensee discovered the problem. The analyst will then conduct an extensive investigation into the alleged problem and will either contact the licensee to explain the problem or the NCOA Department for immediate correction.
- Example 4:** A postal inspector calls to report that he or she is investigating an address that may be used for fraudulent COAs. The inspector wants the names of all moves to the address.
- Response 4:** When a case of suspected address fraud occurs, the analyst requires the postal inspector to fax a written request for data. The request must be approved by postal management before an investigation can begin. If an investigation is approved, the analyst will search the NCOA master file for the requested data and will provide the information to the inspector in a letter containing the facility manager's signature.

The inquiry resolutions that are most often required consist of changes to the NCOA database. These changes range from changing a COA from a family to an individual move order to correcting name and/or address components on an existing COA. There are two methods for making changes to an NCOA record: 1) If the move effective date is less than 18 months past, the analyst will contact the CFS unit responsible for entering the move and request that the CFS unit make the change; or 2) if the move date is over 18 months past, a transaction record (a simulated CFS transaction created at the NCSC and used to make changes on NCOA) will be entered at the NCSC.

It is also the analyst's responsibility to follow-up after a change is made to ensure that the change was properly handled. When a transaction record is entered, the change transaction may not be considered valid by NCSC software because the transaction record does not contain the same information as the original order, or the CFS unit failed to enter the change. The analyst will compare the record of complaint against the same record after the next NCOA update to ensure that the changes were made properly.

<b>CUSTOMER INQUIRY FORM (CIF)</b>		
Analyst: _____	Date: _____	<b>Source of Inquiry:</b> <ul style="list-style-type: none"> <li>• Mailers/List Owners</li> <li>• Privacy Issues</li> <li>• Freedom of Information Requests</li> <li>• Licensee Issues</li> <li>• Postal Customer Inquiries</li> </ul>
Customer name: _____		
Customer address: _____		
_____		
_____		
Customer Phone #: _____		
Complaint		
_____		
_____		
_____		
_____		
Resolution:		
_____		
_____		
_____		
Resolution Date: _____		

Figure 2. Customer Inquiry Form

## NCOA AUDIT PROCEDURES

A schedule of tentative NCOA audit dates is produced each year in January. The Audit Scheduler software program randomly schedules NCOA process audits per licensee per calendar year. Scheduled audits are sent to selected licensees at least three times per year. The schedule may be adjusted periodically to accommodate any conflicts that may arise. Additional audits are added to the schedule as necessary, i.e., after CASS certification, licensee-requested audits, impromptu audits, re-audits after failure, vendor software changes, etc. For tracking purposes, the published management audit schedule correlates the audit release number with the mail date of the audit. The schedule should be monitored by management to ensure that target dates are met. Management determines which audits are remote and which are on-site. On-site audits of each licensee will be conducted at least one time during a 24 month period. Every two weeks, customer audits are mailed to the scheduled licensees.

A process period of ten working days is generally allotted from the time an audit is mailed until customer notification (pass/fail) is made to the USPS contracting officer. The only exceptions are re-audits due to failures or incorrect matches, which will require a longer time period (no more than 10 additional days). All other exceptions require management approval. For tracking purposes, an NCOA management audit status report is produced on the day the audits are mailed to licensees. Audit reports are permanently retained in the licensee's centralized file.

### Audit Tape Creation

To begin the biweekly NCOA audit process, an audit build job (NAABMINI) must be run subsequent to completion of the NCOA master file release needed (the release number noted on the audit schedule). Once reports generated from the NAABMINI run have been reviewed (and retained for a minimum of a month), individual audit files can be produced for the NCOA licensees scheduled for audit. The files, which are mailed to vendors via Express Mail, are created by Job NAAUDIT. Letters to accompany the audit shipments to licensees are generated by the NCSC Administration Department, and documents from the NAAUDIT run are attached. The licensees are notified of the upcoming audit and are given 24 hours to return the audit following receipt.

The tape library notifies the NCOA Department via e-mail of receipt of the completed audit. Job NAAGRADE is submitted for audit scoring, and reports generated from NAAGRADE are reviewed by two analysts. The results are combined into a document listing all deficiencies that are to be corrected, and the document is returned to the licensee. Pass or fail memos notifying the NCSC and headquarters of the licensee audit results are generated by the NCSC Administration Department, and copies are sent and filed accordingly. Licensees are telephoned regarding their pass or fail status. Finally, audit information is logged on the Audit Status Summary Report and provided to management.

### Process Audits

Audits will be conducted on each NCOA licensee as prescribed by the current NCOA license agreement. These process quality reviews shall be performed as frequently as necessary, with no fewer than three audits per system platform scheduled within a one year period. Audits are scheduled on-site, impromptu on-site, or off-site via shipment of a test file.

### Audit Scoring Software

NCOA matching software adheres to strict matching rules and specifications. All facets of the licensee's matching software are rigorously tested, and failure of a licensee to consistently adhere to NCOA matching rules may result in suspension or termination of the NCOA license. A licensee whose software fails to achieve 99% accuracy during testing fails the audit and is sent a thirty-day "cure notice" and a description of the deficiencies by the procurement office at headquarters. When the licensee acknowledges that the required changes have been made, or the thirty day period has expired, the NCSC will retest the licensee. To pass the second audit, the licensee must demonstrate that the software deficiencies that caused the failure have been corrected. If the licensee delivers an incorrect match during the initial audit, the licensee automatically fails the audit and is immediately required to make the necessary corrections and be retested.

Any changes to a licensee's matching software must be promptly tested to ensure that these changes will not result in misdirection of mail. If a licensee is unable to correct software deficiencies in a timely manner, the licensee's NCOA license may be suspended until the licensee is able to demonstrate that the deficiencies have been corrected.

### Scheduled On-Site Audit

The procedure for the on-site, prearranged audit is as follows:

1. A test client address file (audit file) will be provided in the format described in Appendix I. The licensee's NCOA system will be required to process the file against the current master file. The output file produced (described in Appendix II) and the printout from the client file (described in Appendix IV) will be the basis for both on-site and off-site validation of the licensee's NCOA process. An associated National Deliverability Index (NDI) report, a PS Form 3553, sysouts, and associated documentation for the output file will also be required.
2. When processing of the test client file is complete, the audit team may provide a key number file (see Appendix Q-I for file format). The licensee will utilize this file to produce a printout for on-site evaluation (see Appendix IV). The printout will contain all records identified by the key number file.

3. The audit team may or may not perform a preliminary analysis of the results and provide the licensee with any deficiencies noted at this point in the audit process. The audit team may choose to bring the results back to the NCSC for analysis.
4. If time permits, the licensee may make the necessary software modifications to correct deficiencies and reprocess the test client file in its entirety, producing another output file and printout for review. Steps 3 and 4 can be repeated as often as time allows; otherwise, the licensee may elect to correct noted deficiencies after receiving a 30 day correction notice issued by the USPS contracting officer.
5. When it appears that all deficiencies identified in the preliminary review have been corrected, or the time allotted for software modification is about to expire, the licensee will produce an output client file (see Appendix II). This file will not be reviewed on-site but will be brought back to the NCSC by the audit team for subsequent evaluation. **If for any reason the client output file is unreadable, the audit will receive a failing grade.** To minimize the possibility of failure due to file unreadability, licensees must furnish the audit team two copies of the output client test file and should perform their own quality control checks for readability.

In addition to the technical evaluation, all facets of the organizations' ability to meet licensee performance requirements will be demonstrated to the audit team on-site. On-site demonstration should include an unrestricted walk-through of the facility, an overview of the NCOA process, a description of the procedures that will ensure the physical and electronic security of NCOA data while it is in the licensee's possession, and a complete description of the licensee's customer service process, including pertinent advertising materials supplied to clients. Processing acknowledgment forms will be reviewed and compared to Customer Service Logs for completeness and accuracy. When results of the output test client file have been validated at the NCSC, the licensee will receive official notification of the audit results from the USPS contracting officer. On-site audit reports are permanently retained in the licensee's centralized file.

#### **Impromptu On-Site Audit**

In the case of an impromptu on-site audit, the requirements outlined above will remain exactly the same, with the possible exception of the walk-through inspection.

### **Audit Via Shipment**

The procedure for a test conducted via a shipped cartridge is as follows:

A test client address file will be provided in the format described in Appendix I. The licensee's NCOA system will be required to process the test file against the current master file. The output file from this process will be the basis for an off-site validation of the licensee's NCOA process, and the file must be produced in the format described in Appendix II. An associated National Deliverability Index (NDI) report, a PS Form 3553, sysouts, and associated documentation for the output file will also be required. **These items must be returned using the Express Mail label provided and postmarked no later than 24 hours following licensee receipt of the test file. Date and time of licensee return of the test file will be determined by an attached PS Form 3811, Domestic Return Receipt. Failure to attach PS Form 3811 will result in failure of the audit process.**

Upon the validation of the results of the output test client file at the NCSC, the licensee will receive official notification of the audit results from the USPS contracting officer.

When scoring an NCOA audit, the analyst is required to look for errors that have resulted due to deficiencies in the licensee's matching software. The most serious error possible is an incorrect match. Incorrect matches generally fall into two categories: those made by matching to a record in the NCOA file when no match should be made, or those made by matching to the wrong record in the NCOA file.

Incorrect matches are serious deficiencies because they are certain to corrupt or misdirect the mail. When an incorrect match is noted, the licensee is immediately notified and required to fix the software and is immediately re-audited and rescored. An immediate suspension may result if a licensee fails to correct the software.

### **Physical Scoring of an NCOA Audit**

When the licensee provides the audit results cart to the NCOA Department, the cart is processed by the NCSC's automated software, which performs an evaluation of pre-determined records randomly placed throughout the audit file using a keyfile created during the audit build process. The evaluation does a literal compare between the data provided by the licensee and data found on the NCOA master file. Any record containing a single discrepancy is placed in a file to be printed for NCOA analysts.

Upon completion of audit scoring by the automated software, three printouts are created and distributed to the NCOA Department. One of the three printouts is a complete listing of all records containing discrepancies. The list is sorted sequentially by the customer key and is used as a quick reference between the NCSC and the licensee. The other copies are sorted by error type and expected match code and are independently reviewed by two NCOA analysts.

**NCOA  
ADDRESS-  
MATCHING  
PROCEDURES**

After both analysts have reviewed the printouts and selected those records that they feel do not comply with the license agreement, performance requirements, or USPS addressing standards, the analysts reach a consensus and the combined error records are provided to the project leader for final validation. Final results are then provided to the licensee and the USPS procurement officer.

**Description of Records Provided by Automated Software**

NCSC Provided Information

**Original Test Record:** The actual record provided to the NCOA licensee containing the corrupted information produced during the audit build. Plus, an error code (to assist the analyst in finding the corruption) and the match expectancy code used by the software in the automated scoring process are provided.

**NCOA Old Address:** The actual record found on the NCOA database. This record consists of live data containing no corruptions. The data in this section includes the unaltered address in parsed and unparsed formats.

**NCOA New Address:** This section contains the new address information for the NCOA record. Analysts use this information to verify that the licensee matched to the correct record.

Licensee Provided Information

**Licensee's Input:** The first step performed by a licensee during the NCOA process is to return the input address exactly as provided, which demonstrates the licensee's ability to read the input address. If the information in this section is not identical to the data in the test record section, the analyst knows that the licensee's matching results will be corrupt.

**Output Standardized Address:** The second step in processing a customer's file is to compare the input address against the ZIP+4 File and return a standardized address, following all the guidelines set forth in Publication 28, *Postal Addressing Standards*. Address elements can only be modified based on the return from a ZIP+4 look-up. If the address is not ZIP+4 codeable, the licensee must standardize the address without altering the data.

**Output New Address:** If the licensee was able to match on input name and address, this section will contain the new address. The data found here should match exactly to the information in NCOA New Address.



**Errors Detected During Physical Scoring Process**

<b>Missed Matches:</b>	A missed match occurs when the input name and the standardized address are equal to the components found on an existing record on the NCOA master file and the licensee fails to return the move information.
<b>Incorrect Matches:</b>	An incorrect match occurs when the licensee returns the new address information despite differences that appear between the name and/or address on the input file and those on the NCOA record.
<b>NOTE:</b> Because this error could result in the misdirection of mail, licensees are notified immediately of the problem, instructed to make the necessary software corrections, and immediately retested to ensure full compliance.	
<b>Weights and Penalty:</b>	NCOA matching guidelines allow for sight variances in spelling by assigning a weight and penalty value to certain fields and permitting a match, even though the fields are not exact. These allowances are made for the Last Name and Street Name fields only. The results a licensee returns may be determined inappropriate based on the "tightness" or "looseness" of the weight and penalty allowance developed by the vendor.
<b>Standardization:</b>	In the second step of NCOA processing, the licensee is required to standardize the input address in accordance with Publication 28 and ZIP+4 code the record if possible. This error category includes any records that do not meet the requirements set forth in Publication 28. For example: if a licensee drops or modifies a component of the address without reference to the ZIP+4 File or Publication 28, the record is counted as an error because, even though the licensee's NCOA results were as expected, there was still some form of error in the standardized address.
<b>Miscellaneous:</b>	This grouping includes any record that was standardized and matched as expected yet still contains some other incorrect response, i.e., the licensee modified the new address or didn't provide the file in the required format.

### Reviewing Records Produced by Automated Software

Every record produced by the automated software must be evaluated and scored for accuracy. Because some matching rules require subjectivity on the part of the analyst, the only way to ensure proper compliance is for the analyst to ask a series of questions for each record. Those questions are as follows:

**Q:** Did the licensee return a correct and unaltered input address?

**A:** If yes, go to the next question. If no, cite the record.

**Q:** Did the licensee standardize the input address based on a ZIP+4 match?

**A:** If the standardized address has a ZIP+4 Code, verify the data returned by the licensee by performing a ZIP+4 look-up. If the address is not ZIP+4 coded, go to the next unindented question.

**Q:** Was the ZIP+4 match valid for the given address?

**A:** If the input address matches the ZIP+4 record, go to the next question; if not, note the discrepancy. Generally, the analyst will verify that the ZIP+4 exists and that the input address falls within the address range on the ZIP+4 File.

**Q:** Was the ZIP+4 match the best possible match for the given address?

**A:** If yes, go to the next question; if no, prepare to cite the record. For example, the licensee chose a ZIP+4 from multiple possibilities, which is not acceptable.

**Q:** Did the licensee return all elements from the ZIP+4 File correctly?

**A:** If yes, go to the next question; if no, cite the record.

**Q:** Did the licensee correctly standardize all components of the non-ZIP+4 coded input address?

**A:** The vendor is not permitted to make any changes to the input address, with the exception of standardizing abbreviations as directed by Publication 28. Any other changes are considered citeable errors.

**Q:** What change was made to the NCOA record prior to giving it to the licensee?

**A:** A five-character error corruption code that will define what form of corruption was placed on the record is displayed on the original test record. Some corruptions are as simple as spelling out directionals or suffixes, while others may actually change the components.

**Q:** What was the expected outcome of the test record?

**A:** Immediately following the error corruption code is an alpha character that will help the analyst identify whether a match is expected, no-match is expected, and so forth. By knowing whether or not a match is expected, the analyst can quickly go to the new address line to verify compliance.

**Q:** Did the licensee return the expected outcome?

**A:** This is determined by comparing the NCOA new address data with the licensee's response. The analyst needs to check the Undeliverable field if no address is presented in the new address area. Moved, Left No Forwarding Address (K) and PO BOX Closed (G) will not generate any data in the New Address field. If the answer is yes, go to the next unindented question.

**Q:** If a match was expected, what prevented the licensee from matching?

**A:** Check the customer's name, standardized address, and last-line information provided by the licensee against the NCOA information. Reasons for missing matches vary from standardization of the input record to multiple responses on the NCOA file. Therefore, each record must be reviewed independently. See Name and Address Matching guidelines for further description.

**Q:** If a no-match was expected, what record did the licensee match to and why?

**A:** Compare the new address returned by the licensee to the data on the NCOA file. It is possible that the licensee matched to a different record than expected, and the analyst will need to verify that there were no other valid candidate records. If no other candidates were available, then the analyst must determine the reason the licensee made the match.

**NOTE:** This scenario identifies an incorrect match that will cause immediate notification of, and corrective action by, the licensee.

**Q:** If the Licensee's response was as expected, why was the record printed through the automation software?

**A:** The automated software will do literal compares and will print any record in which a difference occurs. It is the analyst's responsibility to locate the difference and determine if it is a citeable offense. Sometimes the difference may be as simple as different unit designators based on the licensee's ZIP+4 processing or as difficult as changing the ZIP Code.

Analysts must exercise extreme caution when reviewing these records. If the licensee makes a mistake in the early steps of processing, it may impact whether or not the expected results need to be changed. For example, in standardizing an address, the secondary value may have been erroneously altered and, if the system was expecting a no-match, the analyst may have overlooked the incorrect change.

**Q:** Should the record be cited, noted, or simply disregarded?

**A:** Any record that violates the performance requirements should be cited and counted against the licensee in the overall score. If a record(s) is presented in a manner that does not conform to normal standardization yet does not affect NCOA processing, it should be noted and not held against the licensee. An example of such a case would be the licensee returning the standardized primary number with leading zeros.

Other records containing differences in the ZIP+4 Code could have been processed appropriately. The NCOA file may contain an uncoded record that the licensee was able to code during standardization. This record will be printed because the ZIP+4 Codes are different, but it will not adversely affect the licensee's audit score.

**Q:** What needs to be done upon completion of the physical review?

**A:** All cited records will be pulled from the pile and sorted by common scenarios of errors (see Generic Listing of Errors for more details). The analyst must type up the results of the evaluation and be prepared to discuss them with the second analyst reviewing the same file. If one analyst believes that a record should not be cited, it is his or her responsibility to prove to the other analyst that the licensee's response was acceptable.

**NCOA  
NAME &  
ADDRESS-  
MATCHING  
GUIDELINES**

Sample Input Address: MR JONATHAN S DOE JR  
123 E MAIN ST S # 100A  
MEMPHIS TN 38188-0001

DATA FROM SAMPLE		MOVE TYPES		
Description	Example	Individual Move	Family Move	Business Move
Gender Title <sup>1</sup>	MR	✓	n/a	n/a
First Name	JONATHAN	✓*	n/a	n/a
Middle Name/Initial <sup>1</sup>	S	✓	n/a	n/a
Last Name	DOE	✓**	✓**	✓**
Suffix Title	JR	✓	✓	✓
Primary Number	123	✓	✓	✓
Pre-directional	E	✓	✓	✓
Street Name	MAIN	✓**	✓**	✓**
Street Suffix	ST	✓	✓	✓
Post-Directional	S	✓	✓	✓
Unit Designator	#	*	*	*
Unit Designator Value	100A	**	**	**
City Name	MEMPHIS	n/a	n/a	n/a
State Abbr	TN	n/a	n/a	n/a
ZIP Code	38188	n/a	n/a	n/a
ZIP+4 Code	0001	n/a	n/a	n/a

✓= Must match exactly

✓\* = Common nicknames may be allowed in matching process.

✓\*\* = Conservative phonetic or soundex coding is allowed.<sup>1</sup>

\* = Must match exactly only when the unit designator is classified as an exceptional unit designator and no unit designator value is given.

\*\* = Must match exactly with one exception – if the value is an alpha-numeric value with the alpha character transposed between the two sources, i.e., A100 = 100A.

<sup>1</sup>Omission of these fields on either the input or the NCOA File may not prevent a match from being made.

Example: John Doe Jr. Match  
Mrs. Jonathan S. Doe Jr. No Match

<sup>2</sup>To allow for misspelled last names or street names, a weights and penalty method has been developed and implemented to assign a "closeness" factor between the input and the NCOA fields. This value will allow a match on names that are not spelled exactly the same yet sound the same or are very similar.

Example: Spiegel vs Spiegle Acceptable  
Wagner vs Warner Unacceptable

**GENERIC  
LISTING OF  
REASONS  
FOR CITED  
RECORDS**

Listed below are examples of some of the written descriptions used when missed or incorrect matches are discovered. This is a sample listing and should not be considered all inclusive.

Missed matches on name prefix titles.  
Missed matches on records with correct gender title.  
Missed matches resulting from improperly applying name matching rule.  
Missed matches on records where customer name erroneously modified.  
Missed NCOA matches based on nicknames.  
Missed matches on businesses.  
Missed NCOA match for an input record assumed to be a business.  
Missed matches on street address with fractional primary numbers.  
Missed matches where the primary street number contains alphanumeric characters.  
Missed matches on records with hyphens in the primary numbers.  
Missed matches on street type addresses when numeric street name is spelled out.  
Missed matches when input street suffix is spelled out.  
Missed matches when unit designators differ.  
Missed matches when secondary values differed.  
Missed matches on records where city and/or state were incorrectly modified.  
Missed matches and dropped address elements without proper reference to ZIP+4.  
Missed matched and modified address elements without proper reference to ZIP+4.  
Missed matches resulting from incorrect standardization.  
Missed NCOA matches.

\*\*\*\*\*  
Incorrect matching based on gender and name prefix title.  
Incorrect match on records where customer name erroneously modified.  
Incorrect matching based on differences in first/middle names and/or initials.  
Incorrect matches made from improperly applying name matching rules. (Cindy Mary)  
Incorrect matches made when a HC record is considered equivalent to an RR record.  
Incorrect matches based on fractional primary number.  
Incorrect match on fractional or hyphenated primary numbers.  
Incorrect matches made when differences occur in the pre-directional field.  
Incorrect matches made when differences occur in the street suffix field.  
Incorrect matches made when differences occur in the post-directional field.  
Incorrect matches based on exceptional unit designators.  
Incorrect match when secondary values differ.  
Incorrect matches made when dropping/modifying elements without reference to ZIP+4.  
Incorrect matches made on improperly standardized HC/RR addresses  
Incorrect matches made after dropping address elements.  
Incorrect matches made resulting from incorrect standardization of input address.  
Incorrect NCOA matches made.

**CONFIDENTIAL, NOT FOR PUBLICATION**

<b>INTEGRITY PROCESS</b>	<p>The Integrity Process was developed at the USPS's National Customer Support Center to identify misuse of the NCOA database by NCOA licensees. Each year, or as often as necessary, this process generates integrity records that are placed on the licensee's NCOA database. Integrity records remain on the licensee's NCOA database for three years unless the Integrity Administrator or the Integrity Programmer request that they be deleted. Although integrity records have the appearance of live NCOA records, they contain undeliverable old and new addresses with computer-generated business and individual names. The NCSC's access to information and/or procedures used in or created by the Integrity Process has been restricted to two individuals, the Integrity Program Administrator and the Integrity Programmer.</p>
	<p>There are two types of integrity records: unique and common. Unique integrity records are unique to each licensee. Each licensee receives the same primary address data with unique names, secondary information on street-type records, and box numbers on rural route and highway contract records. Common integrity records are exactly the same for all licensees.</p>
	<p>After new integrity records are created each year, every delivery unit is mailed an integrity letter that includes a list of the new side primary address integrity record data that affects the delivery unit. The integrity letter requests that the carrier make a copy of any mailpieces containing the primary addresses listed in the integrity letter and mail the copy to the NCSC immediately. Because of the type of information used to create integrity records, no record should ever be submitted to a licensee for matching purposes, and mailpieces should never be generated with information from integrity records.</p>
	<p>If an integrity mailpiece is returned to the NCSC, an investigation will be initiated. Research is conducted into name and/or secondary information on the mailpiece to determine if the mailpiece was created from a saturation mailing or through misuse of the NCOA database. If a mailing was generated with a unique integrity record, the NCSC would identify which licensee misused the data through the business or individual name on the mailpiece. Otherwise, if the mailing was generated with a common integrity record, the mailer is contacted to ascertain which licensee processed and/or provided the mailer's file. If the licensee is found to have misused the NCOA database, the licensee will be terminated from the NCOA program immediately.</p>
<b>GENERATING INTEGRITY RECORDS</b>	<p>Bimonthly a statistical sample of integrity records is selected for the creation of test mailpieces. Test mailpieces are produced and mailed to selected delivery units to ensure proper handling of integrity records by those units. If the mailpieces are handled properly, the Integrity Administrator will receive photocopies of the test mailpieces from each delivery unit. Delivery units that do not respond will be contacted by the Integrity Office.</p>
	<p>The following steps describe the processes necessary to create and add integrity records to the licensee's NCOA database. These procedures are normally performed on an annual basis but are performed more than once per year under</p>

certain circumstances. For example, if a licensee were purchased by another company, the NCSC would provide the purchasing company with a new database containing new integrity records.

**Step 1. DSFHQINP** – Generation of undeliverable records from the Delivery Sequence File(DSF):

Create undeliverable street, rural route, and highway contract records using the DSF. The DSF contains every deliverable address serviced by the USPS in the United States. Step 1 will uncover situations in which there are gaps between house numbers and will generate undeliverable records where those gaps appear (i.e., if there are deliverable addresses for '2 MAIN ST' and '100 MAIN ST', an undeliverable address would be created for '98 MAIN ST').

**Step 2. NCABNCSC** – The following procedure will build and add unique integrity records to the licensee's NCOA database:

The undeliverable records created from the DSF in Step 1 should be used to create five old and new addresses per ZIP Code for the integrity records. For an undeliverable address to be used as a new address, the ZIP Code must be fully covered by CFS, or the undeliverable record can be used for the old address. Once these records are created, a NCOA key and move-effective date are assigned to each record using the NCOA problem file. The problem file contains records that did not pass the quality control test performed on the NCOA transaction file and therefore were not placed on the NCOA database.

To uniquely identify the integrity records by licensee, each licensee will receive integrity records that are unique to their organization. Each unique street integrity record contains unique business or individual names and secondary information, and unique rural route and highway contract records contain unique business or individual names and box numbers. These records are then placed on the licensee's NCOA transaction file.

or **NCABCOMM** – This procedure will build and add common integrity records to the licensee's NCOA database. This process must be run in a NCOA release separate from the unique integrity records.

Although common integrity records are generated in the same manner as unique integrity records, common records *are not* unique to each licensee. All licensees receive the same exact address and name data for all common integrity records.

**Step 3. NCADLTRS** – The following procedures concerns generation of integrity letters that will be mailed to all delivery units.

Each year after the unique and common integrity records are created, integrity letters are mailed to each delivery unit. The integrity letter provides a list of the undeliverable new addresses that were used in the integrity process and ask that the delivery unit provide a copy of any



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	<p>mailpieces having these addresses that they receive to the NCSC for investigation. In addition to copying the mailpieces, the integrity letter requests that the delivery units contact the Integrity Program Administrator immediately if any of the addresses become deliverable.</p> <p>Test mailpieces are sent throughout the year to each delivery unit to ensure adequate handling of integrity records. Each test mailpiece contains a unique key used to identify delivery units that are correctly returning the mailpieces to us. The unique keys are data entered to identify delivery units that are not properly returning those pieces to us. Integrity letters will be regenerated for these delivery units.</p> <p><b>Step 4. NCATSTML</b> – The following procedures generate test mailpieces to be mailed to each delivery unit.</p> <p>Bimonthly a statistical sample of integrity records are selected to generate test mailpieces. The test mailpieces will be mailed to their corresponding delivery unit to help identify delivery units that are not properly handling the integrity records previously provided to them in the integrity letter (refer to Step 3).</p>
<b>NCOA AUDITS</b>	<p>The integrity letter instructs the delivery unit to make a copy of the mailpiece and return it to the Integrity Administrator at the NCSC. Any delivery units identified as not following the procedures provided to them will be contacted by the Integrity Office.</p>
<b>DATA MAINTENANCE</b>	<p>To ensure that each licensee continues to maintain the integrity records on their NCOA database, integrity records are placed on each licensee's audit file (three times a year) exactly as they appear on the NCOA database. If an integrity record "exact match" is not achieved by the licensee, it is possible that the licensee deleted the integrity records from the NCOA database. Tampering with or deleting integrity records could result in instant termination. Immediately following termination of the licensee, new integrity records would be re-issued to all licensees.</p> <p>The following jobs will keep the data in sync with all other postal products:</p> <p><b>NCAREZIP</b> – In conjunction with NCOA rezip, all integrity letters are validated against the ZIP+4 database to identify records that have had some form of data change (i.e., zipcode realignment) on a quarterly basis. If the new address requires an add-on code, carrier route ID, or DPBC change, or if the old address requires an add-on change, a change transaction is issued. Otherwise, the record is deleted.</p> <p><b>NCACHKZ4</b> – This job runs immediately following NCAREZIP. It uses the transactions generated from NCAREZIP and updates our in-house NCOA master file.</p> <p><b>NCACKDSF</b> – Monthly, this job will identify records that are now valid delivery points according to the most current DSF.</p>

**NCADSLT** – This job deletes all integrity records from the NCOA file upon request. Otherwise, records expire by the move effective date that was originally assigned to them.